FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Tax avoidance and British loopholes, Page 12

NEWS SUMMARY

GENERAL

U.S. will continue to back Pakistan

Before leaving Islamabad for Italy on his world tour, U.S. Defence Secretary Caspar Weinberger reaffirmed the American commitment to supply Pakistan with sophisticated weapons.

The U.S. support of President Zia ul-Haq's martial-law regime is partly to counter the Soviet presence in neighbouring Afghanistan, and partly to match India's arms build-up. Page 14

In Sind province, centre of recent resistance to the Zia Government, seven bombs exploded and 11 hostages were seized in protests coinciding with the second round of local elections.

Reagan meeting

U.S. President Ronald Reagan meets President Aristides Pereira of Cape Verde in Washington today as part of an effort to woo the former Portuguese colonies in Africa away from Soviet influence.

Shamir coalition

Israel's Premier-designate Yitzhak Shamir will present his new right-wing coalition Government for Parliament approval on Wednesday or Thursday. Page 3

Chad appeal

President Hissène Habré of Chad is expected to make an important appeal today to French President François Mitterrand and leaders of French-speaking African countries for action to reunify his country and expel the Libyan-backed rebels. Page 3

Hoxha speaks out

Veteran Communist leader of Albania, Enver Hoxha, has made a rare public pronouncement to accuse Yugoslavia of plotting to partition his country.

W German firm line

West German Interior Minister Friedrich Zimmermann said police had been ordered to disperse any anti-nuclear protesters who try to blockade ministries or U.S. Army camps this month.

More oppose Arafat

More members of Yassir Arafat's Fatah guerrilla group have rebelled and taken over some of his bases in Syria, said rebel spokesman Mahmoud Labbadi in Damascus.

Communists accused

The Marcos Government in the Philippines said the outlawed Communist party ordered the execution of opposition leader Benigno Aquino on August 12. Page 3

India's fats ban

India banned all imports of animal fats in a move to check religious worries about adulteration of cooking oil.

All Along's Arc

French-trained filly All Along, owned by millionaire art dealer Daniel Wildenstein, and ridden by Irish jockey Walter Swinburn won the FFr 2m ($248,000) first prize in Europe's richest horse race, the Prix de l'Arc de Triomphe, at Longchamp, Paris, at odds of just over 17-1. British entry Sun Princess was second, a length behind.

Venezuela drug haul

Venezuelan agents seized 687 kg (1,480 lb) of virtually pure cocaine, with an estimated street value of $2 bn after processing – one of the biggest drug hauls in history.

Briefly . . .

Masan, S Korea: Hotel fire killed seven people and injured 30.

Tennis: Australia completed a 4-1 Davis Cup win over France, and meet Sweden, 4-1 winners over Argentina, in the final.

BUSINESS

Europe resists Statoil gas price

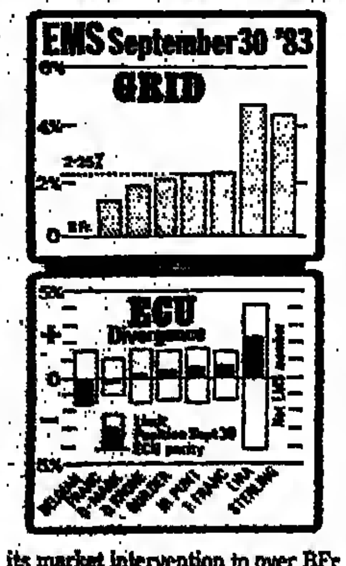
● **EUROPEAN** groups British Gas and a consortium of Ruhrgas (West Germany), Gasunie (Netherlands), Distrigaz (Belgium) and Gaz de France are resisting the price sought by Statoil of Norway for large-scale supplies of gas from the Sleipner field. Page 14

● **THE BELGIAN** franc continued to weaken in the European Monetary System last week and fell outside its divergence limit.

Central banks are expected to take measures to ensure that member currencies remain within this limit, and latest figures show that the Belgian central bank doubled its market intervention to over BFr 9bn in the week up to last Monday.

However, the Belgian franc still touched record lows against the D-Mark and was pinned to its cross-rate floor against the French franc.

The D-Mark continued to improve, although it remained well below the mid-point between its upper and lower divergence limits. The Italian lira was placed at the top of the system, but continued to lose ground, touching record lows against the D-Mark.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● **EEC** is to open an anti-dumping investigation into charges by European chemical makers that China, Czechoslovakia, Spain and Yugoslavia have been undercutting on supplies of artificial corundum, used mainly as an abrasive.

● **AGFA-GEVAERT**, the German-Belgian photographic group, is to build a $75m film plant for an Indian state group. Page 5

● **AUSTRALIAN** domestic airline pilots begin a 48-hour strike today in protest against federal plans to tax lump-sum superannuation.

● **SWEDISH** business leaders plan to march through Stockholm tomorrow to protest against plans to set up trade union-controlled investment funds to take shares in big companies.

● **UK MINERS'** leaders decided *not to put a recommendation on the* National Coal Board's 5.2 per cent pay offer to the 190,000 workforce, but to send it to branches. Page 14

● **TICOR**, financial services subsidiary of Southern Pacific, which is merging with Santa Fe to form the third largest railway-based group in the U.S., is to be bought out for $271m by a group headed by former ITT chief Harold Geneen. Page 16

● **AIR NEW ZEALAND**, which lost NZ$28m in first-half 1982, showed a NZ$10m ($6.6m) profit for the half ended September.

● **CONTINENTAL AIRLINES**, the troubled Houston-based carrier, maintained most of its newly cut services at the weekend, despite a strike call by pilots and stewardesses. Editorial comment. Page 12

GEMAYEL CALLS EMERGENCY MEETING

Jumblatt raises fears of Druze separatism and split in army

BY NORA BOUSTANY IN BEIRUT

MR Walid Jumblatt, leader of the Druze opposition, has triggered fears of a separatist movement and a split in the Lebanese Army by calling for the setting up of local councils in the Druze-held Chouf mountains, and by attending a rally of army defectors yesterday in a mountain town south-east of the capital.

President Amin Gemayel responded to Mr Jumblatt's remarks by immediately calling an emergency meeting at the presidential palace.

During a press conference in the Chouf resort town of Beiteddine, Mr Jumblatt said administrative local councils were needed in Aley and the Chouf, where militiamen of his, mainly Druze, Progressive Socialist Party are in control. His justification was that these areas had become too chaotic and there was need for regulation of day-to-day affairs.

This new local administration could serve to bring pressure on the central Lebanese authorities and would create a form of popular participation, he added.

The Jumblatt plan has as a precedent the similar arrangements which have operated over the last eight years of turmoil in Christian areas controlled by the Lebanese Forces militia. The Christian militia-run civil administration infrastructure has yet to be dismantled.

Lebanese officials wondered whether Mr Jumblatt's declaration was a partitionist initiative and expressed fears that the Druze leader would move to set up a "Druze defence army." Mr Jumblatt, who heads the Syrian-backed National Salvation Front, yesterday travelled to the mountain resort of Hammana, 25 kilometres southeast of Beirut, where he was cheered by some 600 defectors from the Lebanese Army, among them 30 officers.

The defectors claimed they were from different sects and announced that they would no longer obey orders from the Commander-in-Chief of the Lebanese Army, Gen Ibrahim Tannous.

Army officials, however, claimed the defectors were mostly Druze. The officials did not attach much importance to the Hammana event since it fell short of declaring a Druze army. But there have been reports of Moslem Shi'ite defections as well, which raises questions about the future of the Lebanese Army, the most important institution remaining under the control of President Gemayel.

Observers believe that delays in launching a national reconciliation dialogue aimed at introducing political reforms and a more balanced sharing of government posts among the various communities could be behind the hardened Druze line.

The Lebanese Prime Minister, Mr Chafic al-Wazzan, and House Speaker Kamel al-Assaad, have insisted that the issue of the withdrawal of foreign forces from Lebanon had to precede any kind of reforms. Syria is hoping to wield more political influence in Lebanon through its participation in the national dialogue committee as an observer.

"This is all part of the political posturing and bargaining strategy that is going to precede any kind of serious reconciliation talks among the Lebanese," noted one Lebanese politician. With direct prodding from Syria, the National Salvation Front has requested the resignation of the Government of Mr Wazzan. The Prime Minister has been asked to stay in office by Mr Gemayel to provide continued government authority until a formula for a new national unity coalition government crystallizes.

Meanwhile, Christian militias yesterday released 200 Druze women and children who had been held hostage

Kinnock in defence row as he wins UK Labour leadership

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MR NEIL KINNOCK was last night elected overwhelmingly as the new leader of Britain's opposition Labour Party, only to be faced with an immediate row over defence policy which marred the attempt to create a spirit of unity and a new beginning.

Mr Roy Hattersley, defeated for the leadership, went on comfortably to win the deputy leadership against the left-winger Mr Michael Meacher, following last-minute vote switching by major trade unions.

At 41, Mr Kinnock will become the youngest leader of the Labour Party and the first for nearly 60 years never to have had any ministerial experience. He now faces the task of rebuilding Labour as the main challenger to the ruling Conservatives following its massive defeat at the June general election.

Mr Kinnock's victory has looked certain from the start of the campaign nearly four months ago, reflecting his appeal as a left-of-centre candidate and orator from a younger generation than the present leadership who appeals to the conscience of the party.

There was little drama yesterday, though some farce, since when the result was announced the exact figures did not add up.

Mr Kinnock defeated Mr Hattersley by a margin of more than 3½ to one, (approximately 71.3 per cent to 19.3 per cent) with the other contenders, Mr Erich Heffer from the Left and Mr Peter Shore on the Right attracting very little support from the electoral college made up of trade unions (40 per cent of the votes) and the MPs and constituency Labour Parties (each with 30 per cent).

All but one of the ten largest unions affiliated to the party voted for Mr Kinnock as party leader and Mr Hattersley as his deputy.

Mr Neil Kinnock: an overwhelming victory

Mr Kinnock's victory was greeted with loud cheers because there is an evident desire, already reflected in some early fringe meetings, for unity within the party. It is clear that the far Left, whose candidates for the leadership and deputy leadership did badly yesterday, now feel from some far Left MPs that Mr Kinnock should not ignore previous party decisions and their views.

Even before he was elected, Mr Kinnock ran into a row at the pre-conference meeting of the party's national executive committee. He was initially prevented from speaking on a motion on nuclear weapons policy, and then when he did, his views were outvoted.

Mr Kinnock had wanted to remit for further discussion a motion calling for the unconditional removal of all existing nuclear weapons and bases, including Polaris, from Britain. He had objected to the word "unconditional" since, in line with the national executive's new statement, He favours solely a reference to putting Polaris in international negotiations. However the committee voted by a margin of 14-11 to accept the motion. Mr Jim Mortimer, the party's general secretary, argued that there was no incompatibility since the party's reference to Polaris was an immediate campaign issue, while the motion was a reaffirmation of long-term policy.

The party also faces a row over another defence motion which "rejects Britain's membership of any Pentagon dominated military pact based on the first use of nuclear weapons." Mr Mortimer claimed that this did not mean withdrawal from Nato since all it called for was an alliance of equals with Britain and other countries being partners. Mr Denis Healey, the outgoing deputy leader, who will introduce the defence debate on Wednesday, said that the movers of the resolution have said they would make clear that they did not want the party to commit itself against Nato.

However, the end result is to create confusion just when Mr Kinnock and his allies wanted a calm mood for the beginning of his leadership.

Further indications of the party's mood will come with the elections for the national executive committee tomorrow. The indications are that Mr Kinnock and the Centre-Left will have a working majority despite some gains by the far Left and losses by the Right. Mr Peter Shore, the Shadow Chancellor of the Exchequer, warned yesterday of the need to elect an executive which would end the previous factionalism and introspection.

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Mondale endorsed by U.S. unions

By Stewart Fleming in Washington

MR WALTER MONDALE, the early front-runner in the race for the Democratic Party's nomination as its presidential candidate, received a ringing endorsement from organised labour in the United States over the weekend.

In a controversial move the AFL-CIO, labour's umbrella organisation, voted overwhelmingly to back the former Vice-President for the nomination against his Democratic rivals, who include Senator John Glenn of Ohio, the former astronaut.

The decision was taken even though a poll conducted by the New York Times and CBS showed that union members, as distinct from union leaders, were evenly divided in their support for Mr Mondale and Senator Glenn.

In a poll at the Maine Democratic Party's state convention on Saturday, Mr Mondale also emerged victorious. The vote does not bind Maine's delegates to next year's Democratic Party presidential nominating convention, but it is seen as an important test of Mr Mondale's strength.

The decision by organised labour to back Mr Mondale is both an indication of organised labour's efforts to reassert its political influence and a sign of Mr Mondale's popularity with trade union leaders. It is the first time the AFL-CIO has come out and backed a presidential candidate ahead of the state primary elections, which begin next year.

Continued on Page 14

HK bank calls in support after run on deposits

BY ROBERT COTTRELL IN HONG KONG

SUN HUNG KAI and Company, the leading Hong Kong securities and banking group, has announced a HK$200m ($24.4m) support package for its banking arm, an effect of which will be to pass control of the group to Merrill Lynch of the U.S., and Compagnie Financière de Paribas of France.

Sun Hung Kai said in a statement yesterday that the move followed "unfounded rumours about Sun Hung Kai Bank which led to the withdrawal of deposits."

Sun Hung Kai Bank showed total assets of HK$4.8bn and shareholders' funds of HK$436m on its last published balance sheet, for year end 1982. A company executive said last night that the bank was always fully able to meet all its obligations. But the decision to implement a support package had been influenced by fears that recent rumours and withdrawals might snowball into a repeat of the unfounded "run" which Sun Hung Kai suffered in 1978.

Sun Hung Kai is the second Hong Kong bank to have experienced difficulties in the past week. Last Wednesday, the Hong Kong Government took over ownership of the Hang Lung Bank, which had proved unable to meet its obligations. That incident contributed to further nervousness in Hong Kong's financial markets, already unsettled by political uncertainty and a volatile Hong Kong dollar. Analysts had feared that Hang Lung's problems could put pressure on other banks.

The Hong Kong Government is supporting the package to shore up Sun Hung Kai by agreeing to add the bank to the list of institutions with which it places deposits from its exchange fund – the reserves which the Government keeps to regulate the Hong Kong dollar. In addition, Sun Hung Kai says it had agreed "substantial credit facilities" with the Hongkong and Shanghai Banking Corporation, Hong Kong's largest bank.

The HK$200m cash injection will come in two tranches. Merrill and Paribas will subscribe equally for a total of HK$80m of new equity in Sun Hung Kai and Company. The parent will then contribute the HK$80m to the equity of the bank. Mr Fung King Hey, founder and chairman of the group, will lend HK$120m to the bank on preferential terms.

The seven-year loan carries a fixed interest rate of 8 per cent compared with Hong Kong's current prime rate of 16 per cent. Interest on the loan may also be deferred to the extent that the charge would exceed half the bank's net profits in any one year.

In a related transaction, Mr Fung is to transfer 32.5m Sun Hung Kai and Company shares from his own holding to those of Merrill and Paribas, for an undisclosed consideration. The effect of this deal, together with the new issue of equity, is to increase from 40 per cent to 51 per cent the combined shareholdings of Paribas and Merrill in the company.

Continued on Page 14
Lex, Page 14

Argentina imposes emergency controls on foreign exchange

BY PETER BAINS IN BUENOS AIRES

ARGENTINA'S central bank has stopped selling foreign currency to citizens travelling abroad, and suspended the automatic nature of all other foreign payments.

The measures, announced over the weekend, are seen as an emergency move to safeguard the country's dwindling foreign currency reserves. They have led to widespread fears that domestic industry will be starved of essential imports less than a month before the general elections due in the country.

The Economy Ministry said that all operations involving the remittance of foreign currency abroad, whether to pay for imports or for other reasons, would have to be resubmitted for authorisation.

The Union Industrial Argentina, the country's main industrial chamber, warned that the foreign debt crisis could quickly lead to major raw material shortages and a collapse in the tenuous recovery in manufacturing output registered in recent months.

The latest measures were preceded by growing caution amongst the banks. None has been opening new letters of credit to finance imports for the last week.

There are also growing fears that the Government will be unable to resume renegotiation of public sector company foreign debts worth approximately $7.5bn before the October 17 deadline set by the creditor banks.

Negotiations on these debts – a vital part of the rescheduling of the country's total $39bn debt – were frozen last week as a result of a court order. Federal Judge Federico Pinto Kramer, who objects to the terms of the agreement to reschedule the $220m debt of Aerolineas Argentinas, the state airline, has forced the authorities to stop talks. The Aerolineas contract was to have been used as a model for renegotiation of the debts of a further 31 state concerns.

The Government has appealed against the judge's decision, but legal experts have warned against expecting a quick resolution. If Judge Pinto Kramer turns down the appeal, the authorities will try to take the matter to higher courts.

Before the deadline expires, Argentina must repay $300m to the syndicate of banks which put up a $1.1bn bridging loan at the beginning of this year. It is unable to do this without disbursement of the first tranche of the $1.5bn medium term credit signed last month, worth $500m, or disbursement of the third tranche of the IMF standby credit, worth $300m.

Both disbursements are being held up. The $500m payment has been made conditional on the renegotiation of the public sector company debts, now held up in the courts. The third tranche of the IMF facility is also delayed, as fund officials investigate Argentina's third quarter economic performance.

CONTENTS

STATISTICAL TRENDS: The U.S.

Signs of a return to growth pattern

IN THE previous 30 years, the U.S. has rarely suffered a decline in overall economic growth; when it has, those years have been hiccups in a period of sustained growth of real gross national product. The nearest that the U.S. economy came to a period of stagnation was 1980/82, which focuses a statistical interest on the substantial upturn in the first half of 1983; this, if sustained, could return the economy to growth rates of earlier years.

An analysis of the post-war cycles by Martin Barnes of Wood McKenzie indicates that overall growth in the first two quarters of the current cycle is not out of line with the average of the first two quarters of the previous five cycles; if the pattern of earlier cycles is followed then the next two quarters would give a similar growth rate.

Production

Provisional results for GNP growth in the third quarter of 1983 are promising. The various indicators of industrial production continue to rise with particularly strong growth in the indicator of construction supplies; and following four years of steady increases in the number of business failures, the first half of 1983 saw a downturn.

The dollar rides high, but is not necessarily overvalued. The level of the dollar against the other main trading currencies has had an impact on U.S. competitiveness as regards labour costs and export prices and this impact will contribute to increased trade and current account deficits.

But a view that the dollar is overvalued, based on the size of the U.S. current account deficit, must be tempered by discrepancies in the quality of current account statistics. The world discrepancy is of the order of $100bn a year; particularly biased towards items not captured in the current account such as the underestimation of service exports. As the U.S. generates 20 per cent of world service earnings, its international transactions are particularly affected; sufficient to put the reported 1982 current account deficit in surplus and substantially to reduce the estimated deficit for 1983.

Tax changes

The strong growth of portfolio investment in the first quarter of 1983 weakened in the second quarter; an interesting feature against the continued strength of the dollar throughout the period.

The federal deficit, relative to GNP, is heading for values greater than those experienced historically in the other industrialised countries.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department

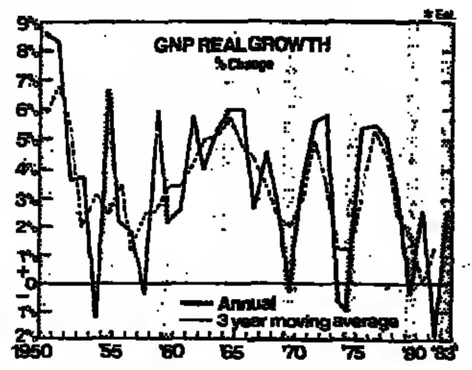
Not only the effect of the 1980/82 recession has contributed to the decrease in revenues as a percentage of GNP, but also legislative tax changes; the increase in outlays is related to increases in defence and government interest payments, and also increases in the GNP share of non-means tested benefits. The Federal Reserve Bank of New York estimates that reduction from the level of the projected federal deficit of 6/7 per cent of GNP in 1983 could come from economic growth if the economy returned to growth rates higher than that following the 1973-74 recession; a similar growth rate would indicate a budget deficit of 7 per cent of GNP in 1988.

U.S. INTERNATIONAL SHARES

	%
U.S. share of world GNP	25.2
U.S. share of OECD GNP	38.4
U.S. share of world exports	12.5
U.S. share of world imports	14.4
U.S. share of main manufacturing exports	17.7
U.S. imports of primary products	14.8
U.S. share of LDC imports	17.4
U.S. share of LDC exports	21.6

Source: F.T. Statistics Unit

General Economy



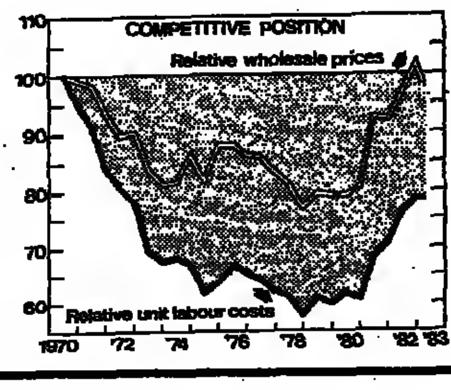
U.S. ECONOMIC RECOVERIES COMPARED

Absolute % change

	First-2 quarters of recovery: current cycle	First-2 quarters of recovery: previous 5 cycles	Next 2 quarters previous 5 cycles
Consumer spending	+ 3.2	+ 2.6	+ 2.9
Residential investment	+26.1	+ 9.7	+13.4
Non-residential investment	+ 0.8	− 0.9	+ 4.3
Government consumption	+ 1.2*	+ 0.9	+ 1.4
Change in stocks (% GNP)	+ 1.2	+ 1.0	+ 0.6
Exports goods and services	− 1.7	0.0	+ 1.1
Imports goods and services	+ 9.3	+ 1.2	+ 9.3
Total GNP	+ 3.5*	+ 3.1	+ 3.3

* Adjusted for distortions caused by farm subsidies.

Source: Wood McKenzie

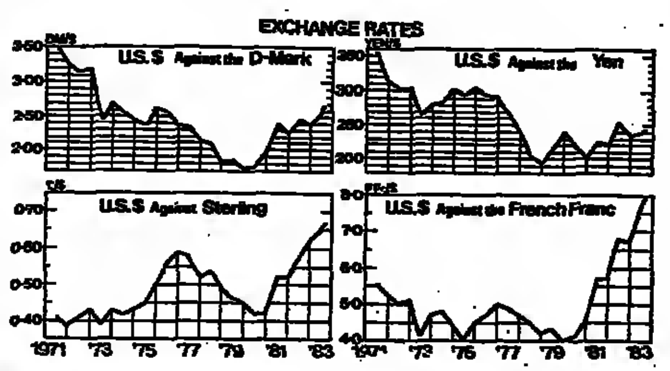


MONEY SUPPLY
(Seasonally adjusted)
% change on previous year

End of period		M1	M2
1981	1	7.47	9.50
	2	9.03	9.92
	3	5.30	8.91
	4	6.40	10.10
1982	1	5.68	9.38
	2	5.47	9.30
	3	6.85	9.43
	4	8.53	9.17
1983	1	10.92	13.18
	2	12.86	13.40
	August	12.72	12.18

Source: Federal Reserve System

Financial



REPRESENTATIVE MONEY MARKET INTEREST RATES
Bond equivalent yields on major short-term money market investments end of month

	U.S.	UK	West Germany	Japan
'76	4.75	14.38	4.80	6.75
'77	6.84	6.50	3.60	5.89
'78	10.57	12.50	3.70	4.64
'79	13.70	17.00	8.70	8.01
'80	17.60	14.75	10.20	9.80
'81	12.78	15.69	10.50	6.30
'82	8.81	10.38	6.20	6.80
'83*	9.52	9.75	5.85	6.61
		Real		
'80	5.22	−0.35	4.70	2.70
'81	3.88	3.69	4.20	2.00
'82	4.91	4.98	1.75	5.00
'83*	7.12	5.15	2.85	4.41

* Latest available.
Source: Morgan Guaranty Trust Co.

PORTFOLIO INVESTMENT (NET FLOWS)
U.S.$bn

		1981	1982	1983 (annualised) Q1	1983 (annualised) Q2
U.S.*:	In	10.15	13.15	23.59	21.59
	Out	5.64	7.99	7.23	12.89
Japan:	In	9.29	6.48	11.07	7.88
	Out	6.05	6.20	8.85	10.58
W. Germany:	In	0.40	1.08	2.28	3.00
	Out	2.79	4.74	6.12	5.24
UK:	In	0.99	0.67	1.29	4.57
	Out	8.56	10.79	10.79	8.40
* Net official purchases of U.S. Govt. securities		6.3	5.10	10.55	7.39

Source: Wood McKenzie

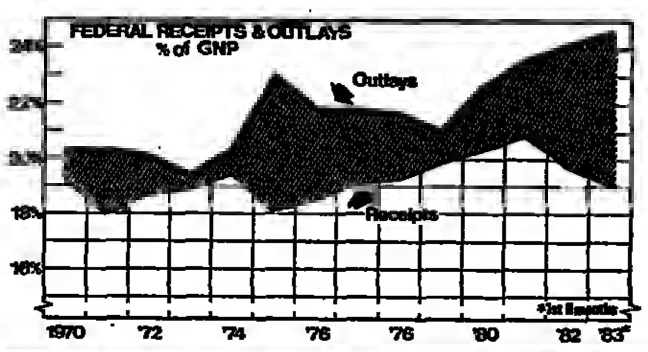
STOCK MARKET PERFORMANCE

(% change)
in local terms
(U.S.$ view in brackets)

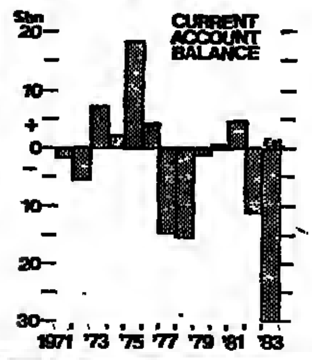
U.S.	UK	Japan	Germany
S & P comp.	FT all-share	Tokyo new SE	Commz.-bank
Jan. 79-Dec. 82 (annual average)			
+13.6	+23.9	+ 9.4	− 2.6
	(+13.0)	(+ 1.5)	(−10.0)
Dec. 82-August 83			
(+16.9)	(+ 9.1)	(+13.4)	(+ 8.5)

Source: F.T. Statistics Unit

Federal Deficit



Trade



MERCHANDISE TRADE

U.S.$bn

Year	Exports	Imports	Net
1975	107.1	98.2	+ 8.9
1976	114.7	124.2	− 9.5
1977	120.8	151.9	−31.1
1978	142.1	176.0	−33.9
1979	184.5	212.0	−27.5
1980	224.2	249.8	−25.6
1981	237.0	265.1	−28.1
1982	211.2	247.6	−36.4

Source: Dept. of Commerce

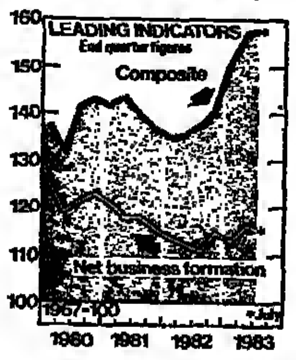
Industrial Production

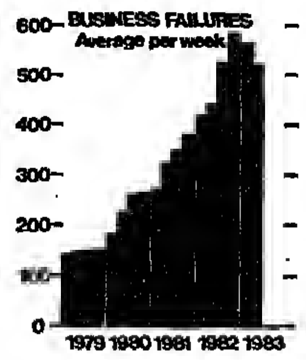
OUTPUT

End of period year/qtr		Total	Final consumer goods	Products equipment	Intermed. total	Products constrctn supplies
1981	1	100.0	100.0	100.0	100.0	100.0
	2	100.5	101.3	102.0	98.6	96.2
	3	99.7	99.7	101.9	98.4	93.8
	4	94.3	95.8	101.4	92.9	85.2
1982	1	93.2	95.4	97.3	92.4	84.2
	2	91.2	97.6	92.3	90.3	82.6
	3	90.3	96.7	90.0	91.5	84.2
	4	88.9	95.8	90.7	90.1	82.6
1983	1	92.0	97.3	89.2	94.1	89.3
	2	96.2	102.7	92.3	98.2	95.2
	August	99.0	105.1	94.3	101.5	98.9

Source: Federal Reserve System

Business





Labour

PROFITABILITY OF MANUFACTURING INDUSTRY

Net profit shares†

	U.S.	Germany	UK
1955-58	21	38	28
1972-75	18	22	17
1976-80	17	20	15
1981	14	18*	8

* 1980. † Operating surplus as a percentage of value added.

Source: OECD

UNEMPLOYMENT RATES

		U.S.	Germany	UK	Japan
'79		5.8	3.2	5.6	5.9
'80		7.0	3.0	7.0	6.3
'81		7.5	4.4	10.7	7.3
'82		9.5	6.1	12.5	8.0
'83	1	10.2	7.1	13.5	8.0
	2	9.9	7.8	13.4	8.2

Source: OECD

COMPARATIVE WAGE COSTS

Index: U.S.=100

	1979	1980	1981	1982
U.S.	100	100	100	100
UK	61	74	65	57
Germany	124	124	96	88
Japan	61	57	56	49
France	87	93	76	68

Source: U.S. Bureaux of Labour

OVERSEAS NEWS

Chad issue to dominate Franco-African summit

BY PAUL BETTS IN VITTEL

THE CHAD conflict will dominate a two-day Franco-African summit meeting which opens in this French spa resort today.

President Hissene Habré of Chad is expected to make a major appeal today to President François Mitterrand and leaders of French-speaking African countries for action to reunify his country and remove the Libyan-backed rebels of former Chad President Goukouni Oueddei from his territory.

It is President Habré's first visit to France in 15 years. Since arriving in France the Chad leader has already attempted to press the French Government to harden its military role in Chad.

The French Government has repeatedly stressed that its soldiers in Chad are involved in a policing operation designed to prevent a Libyan-backed invasion. France has been seeking to promote a diplomatic solution to the conflict and has kept informal but regular contact with Libya.

But President Habré said after his arrival in Paris that the French military presence was now having little impact on Libya's invasion aims. Criticising the French military presence be asked: "What is their exact role? We haven't had any precise answers." For its part, France is so far pleased with the way in which its troops have frozen the military situation in Chad without a single French gun being fired.

But President Mitterrand is increasingly anxious to find a diplomatic solution to the conflict. Opposition in France to the French military presence in Chad has been growing as the conflict drags on. This has been compounded by the situation in the Lebanon where the French forces have suffered casualties.

The summit here is likely to provide a forum to try to advance a diplomatic solution to the Chad question. But no breakthrough is expected at Vittel.

The French Government gave President Habré an official welcome with full military honours on his arrival. The Chad leader was greeted by M Charles Hernu, the French Defence Minister.

The irony of the occasion, however, was not lost on the French public. President Habré was e bitter enemy of France nine years ago when he kidnapped and held for more than 1,000 days a French citizen, Mme Francoise Claustre. The affair caused a major outcry at the time in France.

Another embarrassing aspect of the Franco-African summit could be the presence of Captain Thomas Sankara, the new revolutionary leader of Upper Volta, who seized power last August. The new Upper Volta leader is supported by Libya. His successful coup this summer was in part the result of a French diplomatic imbroglio.

President Hissene Habré

Latin unrest 'greater threat than Soviets'

SARASOTA, FLORIDA – Potential social and political unrest in debt-ridden Latin America is a greater threat to world stability over the next decade than the Soviet Union, according to Mr William Colby, former Director of the U.S. Central Intelligence Agency (CIA).

Mr Colby, who ran the agency from 1973 to 1976, was speaking in an interview on Thursday while attending an investment seminar.

Asked what he considered the greatest current threat, Mr Colby, now a Washington lawyer and consultant, told Reuter: "The Soviet Union is not the main problem over the next decade. Right now it's the austerity programmes imposed on the Latin countries to meet their IMF (International Monetary Fund) commitments."

"If these should get out of hand," he added, "we could have quite a problem."

Mr Colby said he still supported the idea of a verifiable nuclear freeze despite the downing of a South Korean airliner on September 1 by Soviet jet fighters with the loss of 269 lives. Reuter

Shamir takes team to Knesset

BY DAVID LENNON IN TEL AVIV

MR YITZHAK SHAMIR, the head of Israel's ruling Likud bloc, plans to present a new right-wing coalition government to the Knesset for approval on Wednesday or Thursday, according to Mr David Levy, the deputy premier.

This decision was taken at a meeting yesterday between Mr Shamir and the parties in the outgoing coalition, even though it is not certain that the new coalition will have a majority in the Knesset.

While all the coalition parties have agreed in principle to continue the partnership established two years ago by Mr Menachem Begin, who resigned as premier last month, six members of the Likud bloc are threatening to withhold their support for the new coalition.

The "maverick six," as they are termed here, had demanded that Mr Shamir try to bring the opposition Labour Party into a broad coalition of national unity. They apparently suspect that the failure of last week's talks with Labour was the result of intransigence on the part of Mr Shamir and the other Likud leaders.

The would-be premier will try to convince them that he made every effort to bring Labour into government. If he fails, then Mr Shamir may have to try to head a government supported by only 58 of the 120 members of the Knesset.

The Likud hopes that some of the mavericks will return to the fold or at least will abstain rather than vote against the new coalition.

Marcos warning on violent protests

MANILA – President Ferdinand E. Marcos warned yesterday that demonstrations had hurt the country economically and said violent protests must be stopped to assure foreign businessmen of the stability of the Philippines.

After his address to leading Filipino businessmen, President Marcos called his top security advisers to discuss what "options" to pursue should conditions deteriorate, the Presidential palace announced. The Palace did not say what the options were.

"It is crucial to stop these violent demonstrations as quickly as possible so as to assure our businessman and banker friends abroad that the situation here is well in hand," he told the business leaders.

The President was referring to street protests in Manila and in suburban Makati – the country's financial centre – following the assassination of opposition leader Mr Benigno Aquino. Twelve people have died in the demonstrations.

Mr Marcos said the violent protests compound "present monetary problems facing the country," because they were "wrongly perceived" as signifying instability.

● Mr Aquino's brother, accused a Government witness of lying when he testified that Aquino was killed by a Communist rebel. His brother charged that the assassination was "a plain and simple military operation." Mr Aquino was gunned down while under military guard at the Manila airport as he returned in August from U.S. exile. AP

UK NEWS

World recovery speeding up, says LBS forecast

BY ROBIN PAULEY

THE WORLD recovery is gathering pace and is likely to be sustained, although output will grow much more rapidly in the U.S. than in Europe and Japan, where domestic policies will restrict demand, according to the latest London Business School (LBS) forecast, published today.

The increasing momentum has led the LBS to revise its 1983 forecasts upwards again and it is now predicting a 2½ per cent increase in gross national product in the Organisation for Economic Co-operation and Development (OECD) states in 1983 and a further 3½ per cent in 1984.

Industry is expected to expand by nearly 7 per cent during 1983 and pass the previous output peak, reached during the first quarter of 1980, during the next 12 months. Some slowdown is expected in 1984, but nevertheless the LBS expects a rise in industrial production of 4½ per cent between 1983 and 1984. That would be the best performance since 1979.

The forecast is optimistic about the medium-term outlook, with policy within the OECD remaining tight and inflation being contained at around 7 per cent, indicating that the "seeds of a longer-lasting recovery have been laid than was the case after the first oil crisis."

For the period 1985-88 the forecast predicts industrial production improving by about 3½ per cent a year with total output growing slightly less quickly at about 2½ to 3 per cent a year.

Although the U.S. is expected to have faster output growth than Europe and Japan, it may also see some increase in inflation in 1984, whereas other OECD states will have very little increase. For countries outside the U.S., "a less volatile performance on both output and inflation could be a characteristic of the next five years."

Nevertheless, the short-term prospects for Europe and Japan remain a cause for concern. In the UK, West Germany and Japan the improvement in inflation has probably run its course and policy remains tight.

Treasury ministers lose grants fight

BY ROBIN PAULEY

TREASURY MINISTERS have been defeated in their attempts to cut £1bn from the total of central government cash paid out in grants to local councils in England and Wales.

They have succeeded, however, in ensuring that a very stiff scheme of penalties will be introduced against all councils which overspend the Government's targets next year by more than a fractional amount.

The defeat for the Treasury on the amount of grant to be paid means the Government will again provide about £12bn in rate support grant for councils in 1984-85. This represents about 52 to 53 per cent of all local authority current expenditure which is accepted as qualifying for grant.

The decision still has to be ratified by the Cabinet, but ministers have generally rallied to the side of Mr Patrick Jenkin, Environment Secretary, who was arguing strongly for the grant to be maintained at around 53 per cent.

Mr Peter Rees, Treasury Chief Secretary, has been effectively isolated and failed, therefore, even to find a compromise figure, largely because he appears to have made a tactical blunder by pitching his opening demands unrealistically low. He originally sought a grant total for 1984-85 of only £11bn, which would have only around 46 per cent of expenditure ranking for grant.

Such a hefty cut would have produced an enormous backlash on domestic and non-domestic ratepayers, some of whom could have faced increases in rates – local property taxes – three, four or more times the level of inflation to cover the lost grant.

The Government is particularly keen not to do anything to stimulate high rates next year, the last year before the legislation to impose rate limits on councils is planned to take effect.

Vauxhall's Cavalier joins battle

By Kenneth Gooding, Motor Industry Correspondent

AN ANGLO-AUSTRALIAN estate car is the latest weapon General Motors (GM) has added to its armoury in Britain for the battle with its arch-rival, Ford.

The Vauxhall Cavalier Estate, announced today, increases the Cavalier range to 23 models and fills an important gap for GM's subsidiary. Ford has had Sierra Estates, the main competition for Vauxhall's newcomer, on sale since the spring.

Vauxhall reckons that next year it will sell 18,000 Cavalier Estates, representing 14 per cent of total Cavalier sales.

This compares with Ford's Sierra Estate sales of 18,406 in January-August this year; 14.31 per cent of total Sierra registrations. Ford expects to sell about 26,000 Sierra Estates in a full year.

Vauxhall says it is more economic to ship panels for the back end of the estate from Holden, GM's Australian subsidiary, than to tool up to press them itself at Luton, Bedfordshire.

'Super business' for airline's Super Shuttle

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

BRITISH AIRWAYS claimed yesterday it was winning the battle for an increased share of Britain's domestic Shuttle routes between major cities.

The airline says passenger traffic on the prime routes from Heathrow to Belfast, Edinburgh, Glasgow and Manchester had "increased substantially" since the new Super Shuttle marketing drive began a month ago.

At the same time the airline revealed that it did not intend to appeal against a High Court ruling that British Midland Airways should be allowed to fly the London-Belfast route.

British Airways intends, however, to continue to press the Transport Secretary over the licence granted by the Civil Aviation Authority for British Midland to operate the route.

British Airways says that although final figures for the September Shuttle services are not yet available, the early signs are that market share has been boosted

The Super Shuttle campaign was launched with the guarantee that all passengers will be flown to their destination if they report up to 10 minutes before scheduled departure time. If the aircraft is full, another will be provided.

'War threat to oil supplies'

By Ray Dafter, Energy Editor

AN ESCALATION of the Iran-Iraq war with the possible closure of the Strait of Hormuz could leave the world with a 3m to 4m barrels a day shortfall in oil supplies, according to London oil analysts.

Stockbrokers Grieveson, Grant and Wood, Mackenzie report that the possibility of a disruption in oil supplies would be heightened by a French Government decision to deliver five Super Etendard fighter bomber aircraft – equipped with Exocet missiles – to Iraq. Iran has threatened to stop all exports from the Gulf through the Strait of Hormuz if France goes ahead with delivery – currently postponed – of the aircraft.

Small UK exporters offered special Hong Kong credit line

BY CHRISTIAN TYLER, WORLD TRADE EDITOR

BRITISH exporters to the Far East are being offered what is claimed to be the first general line of credit extended through Hong Kong to five other markets in the regioo.

National Westmioster Bank has arranged a £3m loan to its Hong Kong subsidiary for the financing of UK capital goods and services contracts in the colony or in Taiwan, South Korea, Thailand, Singapore or Malaysia.

The loan coincides with the arrival in Malaysia of a high-level UK trade mission, the first since tbe lifting of Malaysia's "Buy British Last" decree imposed because of a dispute betweeo the two countries about control of assets.

Another British Government-sponsored mission leaves today for South Korea.

The NatWest line of credit is designed to help companies witb relatively small contracts in tbe Far East: to be eligible the contrsct must have a minimum value of £15,000 and a maximum of £1m. The loan is backed by Britain's Export Credits Guarantee Department.

The bank's export finance department bas previously set up a multi-country credit for the U.S. and Latin America. But it claims to be the first UK bank to do the same in the Far East.

While the loan to NatWest's Hong Kong subsidiary is guaraoteed by ECGD, credits extended onwards from the Crown Colony would probably be on a commercial basis.

The aim is to make finance easier for exporters with small contracts wbo would otherwlae have to set up their own credit facilities for eacb contract in each market.

Exporters stand to receive 85 per cent of the value of ellgible contracts and bave to secure those contrects by September next year.

● To develop and co-ordioete business with China, a new area office bas been established in Hong Kong by Lloyds Bank Internatiooal. Advice and information services on trade investment and financing relating to Cbina will also be provided to customers. The bank said it also plans to open a representative office in the Shenzhen special economic zone for the provision of financial services to customers iovesting there and in other parts of Guandong Province.

David Marsh in Paris reports on the European airliner consortium's recent problems

Airbus Industrie confident over prospects

"WE WERN'T really counting on getting the order, bun it was still a bit frustrating." That was how M Pierre Pailleret, senior vice-president for marketing at Airbus Industrie, summed up the European airliner consortium's disappointment at losing the key Japan Air Lines contract announced last week to its arch rival Boeing.

M Pailleret said that Airbus had cut prices for its wide-body A-300 and A-310 air liners on offer to JAL by 10 to 15 per cent try try to win the order. "We had been very aggressive."

In the end, JAL chose to buy nine Boeing 767 aircraft in a deal worth $560m over the next five years. The decision was partly motivated by tbe fact that 15 per cent of the Boeing 767 is made by Japanese industry. M Pailleret said. "It takes a lot to offset that problem — maybe we dido't go far enougb."

Tbe decision is a blow to Airbus's hopes of fresh inroads in the Far East, and has also disappointed European Governments looking to airline sales to balance trade with Japan.

Despite the setback, and another recent blow in Australia's eirline Qantas choosing Boeing rather than Airbus, M Pailleret was optimistic about wrenching orders from its main U.S. rival over the next few months. Indian Air Lines seeking replacements for Boeing 707s, and Korean Air Lines were possible Airbus buyers.

The Airbus consortium, in which French, West German, British and Spanish aerospace companies have stakes, has sold only eight oew aircraft this yeer after net sales of just six last year (17 sold and 11 cancelled). But M Pailleret is confident that after two years in the doldrums, the international air line market is starting to pick np.

"For the second half of the year, we see the market coming back primarily as a replacement market. And we aim to have most of the orders."

He was also optimistic about the chances for the planned new A-320 150-seater Airbus, whicb has still not been formally launched in spite of over two years of talks in Paris, London and Bonn. "We want

'We see the market coming back . . . and we aim to have most of the orders'

to introduce the A-320 in the spring of 1988 and we need to launch the pcogramme by the end of the year," be said.

Backing recent French calls for quick decisions on the $2bn A-320 project, M Pailleret made a special plea for Britisb support. The UK Government has been less than enthusiastic about putting up cash for the programme, especially in view of some feeling on the aircraft market that the new narrow-body airliner will not be needed until 1989-90.

"It is inconceivable that British Aerospace could back out," he said. But it would be "extremely difficult" for BAe to go it alone on the A-320 without Government cash.

On estimates that the narrow-body market would reach international sales of about 3,000 aircraft up to the end of the century, with much demand coming from replacement orders for ageing aircraft, M Pailleret said Airbus aimed to capture about one-third of the market with its A-320. This was similar to its existing sbare of the wide-body market.

"We bave proven that this is the biggest possible market we could address. We bave gona througb traffic forecasts using more and more prudent assumptions."

He admitted it would belp the launch of the A-32 Airbus had "one or two" additional orders for the aircraft. Airbus was talking to about 15 world airlines to try to secure commitments, but up to now only the state-backed French companies Air France and Air Inter had placed contracts. M Pailleret stressed the consortium's confidence ebout A-320 prospects.

He said that Britisb Airways' decision last month to take a short-term lease on small Boeing 737-200 aircraft rather than to go outright for an Airbus A-320 purchase was "very wise." He noted that the decision still left BA with its options open to take the A-320 in 1988.

● Airbus has confirmed that Eastern Air Lines of the U.S. will simply be delaying delivery of four wide-body aircraft due to be supplied this year. Last week it was reported erroneously that Eastern was cancelling the jet order because of financial difficulties.

Indian film plant deal for Agfa

By Paul Cheeseright in Brussels

AGFA-GEVAERT, the German-Belgian photographic equipment, tape and office systems group is to provide India's State-owned Hindustan Photo Films Manufacturing Company with a new factory in a $75m (£45m) deal.

The Belgian wing of the group, wholly-owned by Bayer of West Germany, has signed a memorandum of understanding with Hindustan Film for the construction of a factory to produce cine-colour positive film.

After the plant has opened, Agfa will keep a check on quality control and provide technical assistance, a spokesman said.

Tbe deal cements a relationship which Agfa has nurtured over several years. Agfa already has a pcoduction and distribution centre in Bombay.

The factory will supply film to the vigorous Indian film industry, one of the world's biggest film consumers. The Indian market for photographic products of all sorts has in addition attracted Kodak of tha U.S. and Fuji of Japan.

Agfa has said that its products have been attracting increasing interest in the Eastern film markets. Recently the company introduced a new type of colour positive film with improved emulsion technology.

Singapore awards tunnel deal

SINGAPORE'S Mass Rail Transport Autbority has awarded a $36.4m contract for construction of a 2 km-long tunnel and an underground atation to a joint venture composed of a French, Italian, American and Singaporean company, AP-DJ reports from Singapore.

Borie Sae of France, Ong Chwee Kou Building Contractors of Singapore, Cogefar of Italy and the American tunnelling contractor, Tryalor Brothers, will design and construct the hored tunnel from Newton Circus to Somerset Station.

The contrect is the second to be awarded for the project. The month, the authority awarded a S$98.8m civil engineering contract to a Japanese joint venture.

Chemical dumping charge

BY PAUL CHEESERIGHT IN BRUSSELS

CHINA, CZECHOSLOVAKIA, Spain and Yugoslavia have been accused by European chemical producers of dumping a specialised product called artificial corundum on the EEC market, selling at prices sometimes 40 per cent less than domestic manufacturers.

Tha European Commission has announced it is starting an anti-dumping investigation following a complaint by tha European Council of Chemical Manufacturers' Federations.

Israel presses for boost to N. Sea energy supplies

BY MAURICE SAMUELSON

BRITAIN'S repeated refusals to supply North Sea oil to Israel are likely to be on the agenda for discussion when Israeli Eoergy Minister Mr Yitzhak Modai calls on Mr Peter Walker, his UK counterpart, in London today.

Ten days ago, Norway braved Arab displeasure by consenting to sell 500,00 tonnes of oil over the next six months. Although the Israelis are in no hurry to reopen formally their bid for British oil, they evidently hope Norway's decision may eventually provide a precedent for Britain.

According to Mr Modai, Britain "virtually agreed" to sell Israel oil in the closing days of the last Labour Government when Mr James Callaghan, the Prime Minister, consented to a deal for 1m tonnes a year once Britain was self-sufficient in oil.

Israel wishes to use North Sea light crude from Norway and Britain to replace its purchases on the spot market, curreotly accounting for 35 per cent of its total oil imports. It also bas long-term orders with Mexico for 40 per cent of its oil needs and with Egypt for the remaining 25 per cent.

Britain, on the other hand, is anxious to retain Israel as a market for coal. Last week, the National Coal Board won an order to supply about 250,000 tonnes to the Israeli electricity authorities in 1984.

Tbere have been hints in Israeli circles that the size of future orders for Britisb coal could depend on a cbange of heart here over oil sales.

By the early 1990s, Israel plans to generate 70 per cent of its electricity from coal, double the present amount.

Israel's first coal-fired power station, the 1,400 Mw plant at Hadera on the Mediterranean, is due to be fully operational next August. A second, 1,100 Mw coal-fired plant is about to be constructed on the coast near Ashkelon.

SHIPPING REPORT

Tanker market dull again after brief spurt in rates

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE SPARKLE disappeared from the tanker market again last week, with rates showing little movement after the brief spurt the previous week.

Inquiry for VLCCs (very large crude carriers) from the Gulf was limited. E. A. Gibson said the last representative fixture from Ras Tanura in Saudi Arabia to the West was at Worldscale 29.

But one ULCC (ultra large crude carrier of over 300.000 deadweight tonnes) was fixed at Worldscale 30, a sligbt rise beceuse of the scarcity of this type of vessel.

In the dry cargo, sector, Galbraith Wrightson described the week as an uninspiring one, with little activity in cargoes for the Atlantic. However, handy-size ships of 25-40,000 dwt were in demand.

The volume of inquiry in the grain market across the Atlantic was still below the usual seasonal levels, while iron ore chartering has also been subdued. Demand for coal from Italy, Spain, Greece and the Far East could bring some life back to that market.

As shipping markets have slumped, so bave the fortunes of shipbuliders. However the first balf of 1983 asw a 29 per cent jump in new ship orders received by Western industrialised nations, according to the Organisation for Economic Co-operation and Development.

Tbe OECD cautioned, bowever, that the rise to 4.8m gross registered tons did not mean the slump was over. The increase mostly reflected an order for 110 sbips by Sanko Steamship with yards in Japan. Eucopean orders were down sharply.

World Economic Indicators

RETAIL PRICES
(1975 = 100)

	Aug. '83	July '83	June '83	Aug. '82	% change over previous year
UK	250.7	249.6	248.3	239.7	4.6
W. Germany	140.9	140.5	139.9	136.8	3.0
France	230.3	229.2	227.2	210.1	9.6
Italy	346.8	345.5	342.1	305.3	13.6
Netherlands	157.5	157.1	156.3	153.3	2.7
Belgium	173.7	172.1	170.4	161.0	7.9
U.S.	186.4	185.5	184.9	181.6	2.6
	July '83	June '83	May '83	July '82	
Japan	150.8	150.4	151.5	147.5	2.2

Source: Eurostat

UK NEWS

New move to end car delivery strike

THE GOVERNMENT's arbitration service, Acas, will try today to reopen talks on the official strike, now in its fifth week, which is halting delivery to dealers of half the Escorts and many of the new Orions produced at Ford's Halewood plant on Merseyside.

The 200 long-distance drivers employed by Silcock and Colling at its Halewood depot claim the company is refusing to observe normal dispute procedures.

Talks between the company and the Transport and General Workers' Union broke down again last week over the terms of the recovery of the 11,000 Escorts now stockpiled in and around the factory.

● THE BANKING, Insurance and Finance Union hopes to sign an agreement today providing 4,000 Youth Training Scheme places for school-leavers in Britain's five main clearing banks. A previous attempt to reach a national outline deal with the Federation of London Clearing Bank Employers failed last month because of disagreement over which items were subject to negotiation.

● OSMOSIN, Merck Sharp & Dohme's new anti-arthritic drug, is not likely to return to the UK market. Sales of the drug were temporarily suspended last month following reports of adverse side-effects. The Committee on Safety of Medicines has had reports of some 650 side-effects out of a total of 500,000 prescriptions for Osmosin.

● THE WORKFORCE at the doomed United Biscuits (UK) Crawfords plant in Edge Hill, Liverpool, have given a cautious welcome to a survival package worked out by a joint consultative committee financed in part by the Merseyside County and Liverpool City Councils.

Consortium joins bidding to build U.S. coal gas plant

BY MAURICE SAMUELSON

A BRITISH consortium, including the British Gas Corporation, has entered the race to build a $1bn (£667m) coal gasification plant in the U.S. state of Louisiana.

The consortium, which also includes Babcock Woodall-Duckham and the BOC group, is seeking financial backing from the U.S. Government's Synthetic Fuels Corporation, which can allocate up to $1.9bn for coal-to-gas projects.

The new UK venture – called Slagging Gasification Consortium – is hoping to supply initially 165m cu ft of gas per day at a chemical plant owned by the Georgia-Pacific Corporation.

It is competing against seven other large industrial groups which have offered to carry out coal gasification projects financed by the Synthetic Fuels Corporation. The others are all led by U.S. companies, although at least two have West German participants.

The British consortium would use equipment developed jointly by British Gas and Lurgi Kohle und Mineralöltechnik of Frankfurt. Babcock would be the main contractor, with BOC supplying air separation plant.

If approved by the U.S. authorities, construction would take several years, providing work for more than 1,500 people

● A group of North Sea oil companies, led by Phillips Petroleum, has signed a unique sales agreement with British Gas Corporation. The deal, which should pave the way for a field-development project costing more than £200m, is said to be the first involving a contract for gas yet to be fully identified.

British Gas will pay an estimated 22p-23p a therm for supplies from the Audrey Field in Block 49/11a, east of the Humber estuary, but Phillips and its partners have still to decide whether the field contains gas in commercial quantities.

Mr Chris Greentree, chief executive of London and Scottish Marine Oil, one of six companies with interests in Audrey, said the deal reflected the "new thinking and fresh approach" which was essential if the UK gas industry was to continue its development.

Grundy machine hope

BY RAYMOND SNODDY

THE LIQUIDATOR of Grundy Business Systems believes he is close to an agreement which would save the microcomputer company's NewBrain machine.

Grundy Business Systems collapsed in August with debts of around £3m. The liquidator, Mr Timothy Harris of Deloitte, Haskins and Sells, said he was optimistic that a company in the European computer industry would buy the rights to NewBrain.

This would include a large quantity of components and orders worth about £1m. "If the deal goes ahead the value of the components and stock will be enhanced and I will not have to try to get scrap value," said Mr Harris.

Express invests in English cheese

By Lisa Wood

EXPRESS CREAMERIES, the cheese and butter division of Express Dairies, is investing more than £¾m developing English cheeses.

The company, owned by Grand Metropolitan, Britain's second largest cheese producer after the Milk Marketing Board, is investing in six sites, from Scotland to Devon, creating 140 new jobs.

The investment is being used to modernise Cheddar and existing regional cheese production as well as to introduce new speciality cheeses, many of which have not been commercially manufactured for many years.

While cheese consumption in the UK has remained static for some years, there has been a shift in tastes towards European soft cheeses, regional cheeses and speciality cheeses. Express Creameries intends to tap the trend towards regional and speciality products.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Dow learns to cope with its critics

Carla Rapoport explains why all is not well in Midland, Michigan

POLYURETHANE telephone poles. New kitchen cleansers with multi-million dollar markets. Plastic soup cans. A wonder drug for epilepsy. Executives at Dow Chemical, the world's sixth largest chemical company, would like to talk of nothing else.

Unfortunately, most of these products are still in the dream category. Reality in Midland, Michigan—Dow's home base—is a lot less fun.

Over the past 12 months, Dow has been accused of poisoning the citizens of Michigan, putting improper pressure on a federal agency, contributing to the ill-health of Vietnam war veterans and polluting the rivers of its home town. At the same time, business has been pretty terrible.

The result is that the company has had to take a hard look at its position in the market place—what it saw has created a business challenge of a different kind.

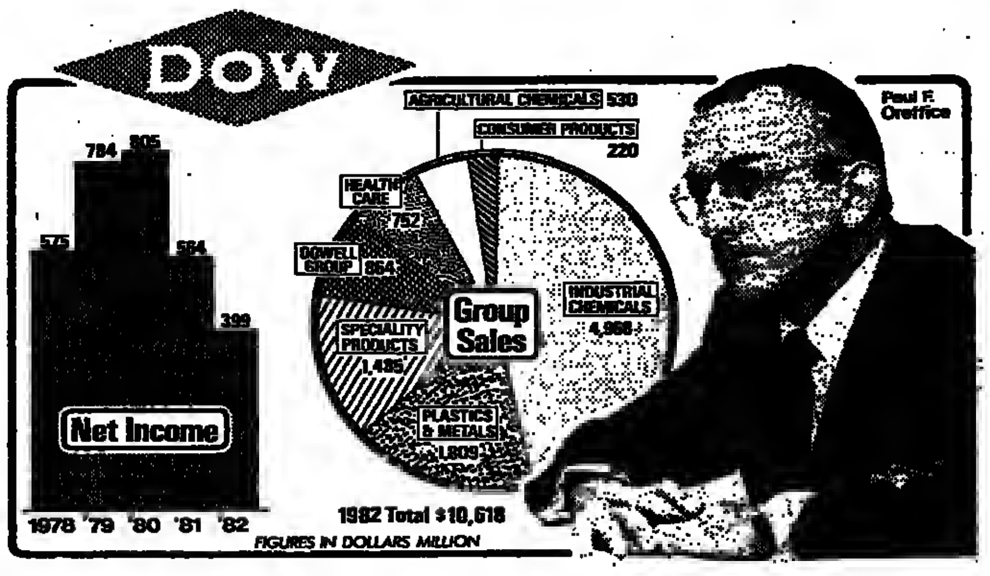
At the centre of these storms is Paul Oreffice, the Italian-born president of Dow. With swept back hair and a fine Roman nose, Oreffice epitomises the career executive. He has spent more than 30 years with the company world-wide. His confidence in Dow's marketing skills, scientific know-how and products remains unshakeable.

Today, however, he has come to realise that the rest of the world doesn't necessarily share his opinions. "It's been a frustrating year," he says in his spacious but sparse office in the company's headquarters. Then he points a finger and admonishes, "but what has happened to us could happen to any chemical company. We might just be the first."

Oreffice's warning must be a chilling one for other chemical companies. For the events of the past 12 months have posed one of the most serious dangers any company can face—the potential loss of its good name.

The bulk of Dow's $10.6bn turnover is achieved through the sale of petrochemicals which are used to make things like rubbish bin liners and plastic components for just about everything that moves. But the supply of these petrochemicals has significantly exceeded demand for nearly three years. Not surprisingly, chemical companies are rushing into higher-value added products. In Dow's case, this will include a big push into the consumer arena.

"Will the consumer buy a Dow kitchen cleaner if he thinks that Dow pollutes the environment with chemicals that give people cancer? Would you?" asks a Dow executive. "We're dealing with perceptions here, not facts. If people perceive us to be doing something wrong, we have to change that perception."



The key change, according to Oreffice, is that Dow can no longer give out facts on a subject and expect its critics to be mollified. "The public today cannot be expected to take our word on something without corroboration," proclaims Oreffice.

With this in mind, the company has stumped up a total of $3m to fund independent studies of the most damaging allegations against it. These will include investigations with government officials into the level of contamination in and around Dow's facilities, the incidence of cancer in the Midland area and methods to reduce further its output of the toxic chemical byproduct, Dioxin. These studies will be monitored by independent auditors.

A disciple of Dow's old school of thought, Oreffice privately admits he's not entirely happy with the independent study approach. "I have to say I was against it. It smacks to me somehow of trying to buy people off. But if we say we know the facts on something, we are accused of being arrogant. If we say we don't know all the answers, people say 'You are killing people and you don't know the answers?'"

"To be guilty until being proved innocent is ridiculous, but it is something we have to learn to live with," he says with a sigh.

It used to be that Dow could shrug off unpleasant criticism and take comfort from its steadily rising line of profits. (The group could shouldered the storm over its production of napalm during the Vietnam war—a decision some younger Dow executives now regret.) But operating income today is running at about a third of its level in 1979 and an end to the current gloom does not appear to be in sight.

Prices for many of Dow's products went up during the summer, but executives admit that most of these rises didn't sitck. Overall prices today are about 3 per cent lower than they were at the first of the year. "And that's significant considering our costs aren't down by the same amount," says a Dow executive.

The outlook, moreover, does not appear to be much brighter. "In a few years' time," says Oreffice, "there will be a few sophisticated producers in commodity petrochemicals making a decent profit and a large number not making any profit." The key will be production technology and something he calls differentiated products, which are commodity products aimed at specific customers or specific end-users.

He has his eye on the consumer product market, saying that he now aims to push sales in this area to $1bn by the end of the decade, compared with around $220m today. In eddition, he stresses that advances in higher value-added chemicals and promising new drugs are percolating down Dow's pipeline.

But this diversification task looks immeasurably harder than the one Dow faces in its public image. "Speciality chemicals are a different mind-set," says Tony Church, chemicals analyst for Kidder Peabody in London. "You run a speciality business a different way. You have one plant with 100 customers each taking a kilo. That's a dam sight different from running an ethylene plant and selling the stuff on spot markets," he says.

"Consumer products? Have they got the right marketing skills for the consumer market? It's not just a question of the right products . . . what about distribution and stocks and all the rest?" he asks.

Still, Dow is commonly regarded as one of the most efficient producers and strongest marketers in the chemical business. "If they can achieve the trick of upgrading a product like styrofoam—which consists mainly of air—and get better prices and new markets for it, this would prove they are very clever people and they may make it," says Church.

If Dow doesn't achieve its diversification goal—50 per cent of earnings to come from value-added products and services by the late 1980s—it won't be for lack of trying. The group has disposed of $1bn in assets over the past 18 months and reduced its debt-to-equity level from more than 90 per cent to 66 per cent by June of this year. Cash flow is back in the plus column and R & D spending has been allowed to float up to close to $500m this year.

Oreffice now says the company is actively looking for companies both in the U.S. and abroad in the consumer and agricultural product area, as well as in higher value-added chemical fabrication. As for the new management skills needed to run these businesses, Dow is both aiming to grow its own talent within the group and hoping to find good management within its acquisitions.

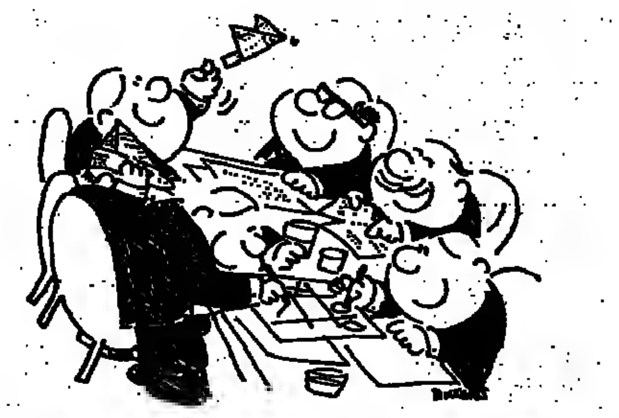
On the public image initiative, Dow is also working overtime. Five top-level executives have pulled off their regular assignments to form an Environmental Action team. This group is now dealing with the current and potential allegations against the company and figuring out ways to counteract their effects in an open, positive manner.

Members of the public relations team have few illusions about the problems they face. "When I told friends I was joining Dow," says the company's young PRO, Thane Hansen, "people said aren't they the company that napalmed villages in Vietnam? Nobody seems to remember that we were selling napalm under a government order. The anger over napalm centred on Dow, not the government."

Also in this group is Bob Charlton, formerly the group's financial public relations manager, now with the unlikely title of manager of Agent Orange Communications. Agent Orange, a defoliant used in Vietnam, is the subject of a multi-million dollar suit recently launched by 20,000 war veterans against Dow and four other chemical companies.

"Obviously there is no quick fix," says Charlton. "A corporate reputation takes time to repair and we'll be committing more resources to this area. Stonewalling won't work any more. We can't be happy with just a good reputation in the financial community."

How to swing meetings your way



THERE ARE certain "laws" of human behaviour that while probably no less reliable than the economists' supply and demand, none of us seems willing to learn from.

The best known example is Parkinson's Law: Work expands to fill the time available and staff multiply regardless of output. Another is the Abilene Paradox formulated by the American psychologist Jerry Harvey a decade ago. It states that people in groups will tend to agree on decisions which as individuals they know are stupid.

The two tendencies may be mutually reinforcing so that as staff increase more decisions are entrusted to groups and vice versa. The mania-go-round will then continue until the organisation, having far outgrown its financial strength, is forced to get rid of large numbers of employees.

This does not necessarily ensure a return to efficiency, let alone effectiveness. For the order to shed staff tends to invoke Carew's Law of redundancy which states that the victims chosen will be those who can be sacked with least embarrassment to the sacker, regardless of their competence.

Harvey's research also discovered that most members of groups "don't want to work together, can't work together and have no reason to work together." He concluded that in everyone's interests organisations needed wherever possible to remove decisions from committees and entrust them instead to individuals.

But possibly because in most concerns decisions of that sort would have to be taken by a group, Harvey's proposed policy of "team-destruction" has been generally ignored in favour of the continuation of its opposite: team-building.

While shareholders and taxpayers cannot benefit from this obvious but apparently irresistible insanity, it is not entirely unproductive. It has incessantly spawned meetings, more meetings and yet more meetings to the extent of generating its own secondary market—in books on what to do at meetings.

Two examples have been published lately. One, by the tongue-twisting team of James Jeffries and Jefferson Bates, is a comprehensive although readable guide to organising, conducting, addressing and doing a great many other things at meetings. By contrast Winston Fletcher's perkily written treatise tells us how to manipulate the accursed things.

"As with aggression, conciliation must be employed sparingly."

"Few meeting-goers employ interrogation effectively."

"Contrary to popular belief, few successful people are impatient."

"Sulking works far better in small meetings than in larger ones."

"'He can be pretty pig-headed when he likes,' is invariably a complimentary description."

Unfortunately, simply because such an entertaining book on such a widespread activity seems sure to attract a big readership, those who learn the techniques it proposes are unlikely to find them positively productive. For if they have also been learned by others at the meeting, the best any of them will be able to do is adroitly stymie the aims of all the rest.

Indeed, if everybody read the book then meetings the world over would no longer reach even the few sensible decisions they occasionally do now. They would just reach no decisions at all.

But I doubt that the obvious fact that the whole exercise had become totally, instead of only largely, a waste of time would lead a species so addicted to meetings to stop holding them. Experience suggests that the likely result would be the setting up of a potentially infinite series of more committees each charged with deciding how to improve the effectiveness of the one before.

Which to anyone desiring a prosperous economy and well managed society raises the question: which is the more anti-social—to read a book on how to manipulate meetings, or to write one?

If the latter, the probable sales of the book should at least allow Mr Fletcher to feel guilty in comfort. But that is not to suggest that he has produced his treatise in a spirit of cynicism.

On the contrary he seems if anything to be an enthusiast for meetings to the extent not only of finding them fun, but also of reflecting two of their characteristics in the very presentation of his book.

Each of its mostly short paragraphs is divided from the next one on the page by a wide space even though the type is big enough to have been easily read if the paragraphs had been printed directly on top of one another.

The effect of the spaces is to give the text a strange resemblance to a psalm book, and so reflect the ritual nature of meetings.

What's more, had the spaces been omitted the book would have been 20 per cent shorter, and so perhaps even cheaper.

Meetings, conferences and audiovisual presentations, by James R. Jeffries and Jefferson D. Bates; McGraw-Hill, £16.50. Meetings, meetings, by Winston Fletcher; Michael Joseph, £5.95.

Michael Dixon

TECHNOLOGY

EDITED BY ALAN CANE

A NEW AND GROWING HOBBY IN THE U.S. IS TO TUNE IN TO SATELLITES

The satellite space pirates

BY JASON CRISP

SATELLITE technology is taking over from the swimming pool as the status symbol for the North American home. Large satellite dish aerials pointing to the heavens are springing up in back gardens all over the U.S. and Canada.

Hotels and motels are sprouting similar large dishes of eight to ten feet diameter on their roofs. Guests can watch recently released films and major live sporting events, either in their room or in a bar with a large projection TV.

A flourishing and fast growing industry has emerged to supply these expensive satellite receiving systems, which typically cost $2,500 to $3,000 for the dish aerial and the essential electronics to receive television pictures from space. Anyone with the equipment can watch—illegally—120 channels transmitted from 14 satellites visible in North America. Most channels are not scrambled so the television is free.

Estimates for the number of such satellite receiving systems in the U.S. vary widely because most of the companies serving this particular market are new and small. Chris Schultheiss, editor of the monthly magazine Satellite TV, one of several which have sprung up to serve this new hobby, estimates there are between 150,000 and 300,000 such systems in the U.S. and Canada.

Other estimates are significantly higher and some predict that up to 3m such systems may eventually be in use in North America. However, Scientific Atlanta, one of the leading vendors of all types of satellite receiving equipment which has close links with Britain's Plessey, thinks the numbers are inflated because dealers and distributors are carrying large stocks.

This new hobby is a result of the geography of the U.S. and Canada. The vast size of the North American continent has made satellites the most economic way to distribute TV programmes to cable companies and local broadcasting stations. The satellites are in geostationary orbit 22,000 miles above the equator. Their total capacity is over 300 channels, some are not used and others may be used for business communications.

In the UK and most other European countries television programmes are relayed by terrestial cables and microwave. There are, however a handful of private satellite receivers in the UK. One manufacturer said a few people have 22 foot dishes which they are using to intercept — again illegally — American forces broadcasting being relayed to West Germany via one of the Intelsat telecommunications satellites.

> "Scrambling becomes a challenge. A lot of these guys (with satellite receivers) are geniuses."

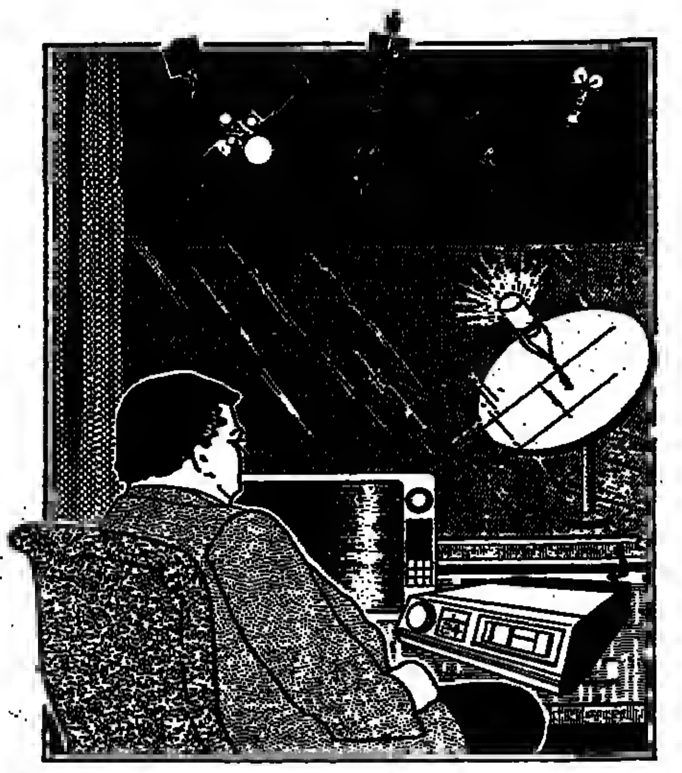
These giant dishes can also pick up television broadcasting from satellites over the Atlantic used by Argentina and Morocco. Much smaller dishes are also used to pick up the powerful transmissions of Russian TV from a Soviet satellite. This is restricted mainly to satellite buffs and universities which teach Russian.

But in the U.S., anyone tuning into RCA's SATCOM F3 satellite, for example, which is found 131 deg West would be able to watch a far more interesting selection than Russian or Argentinian TV. The choice on this satellite alone includes recently released films from Home Box Office and Showtime, Ted Turner's 24-hour news service, MTV and 24 hour music station, the weather channel, and a host of others from children's programming to the National Jewish Television on Sunday afternoon.

The interception of these satellite transmissions began in about 1976 and was confined to a few wealthy enthusiasts. At the time it needed a dish of at least 12 ft diameter which would cost about $30,000 and would take days to align with a satellite. The price of the system and size of the dish has been falling because of great improvements in the electronics.

In the past two years the price has fallen dramatically with the cheapest and most basic system costing about $1,000. The major advance has been in the low noise amplifier (LNA), which magnifies the faint signals being beamed from space.

Sophisticated systems can cost substantially more, with better amplifiers, and motors which automatically move the antenna from one satellite to another.



Between 150,000 and 300,000 satellites receiving systems are estimated to be operating in the U.S.

The main manufacturers of equipment used include: General Instrument, Scientific-Atlanta, Luxor of Sweden, KLM and Drake, two amateur radio companies, Dexcel part of Gould, Avantek and M/A-Com.

The size of the dish depends also upon the power of the satellite and its relative position to the receiver. Most of the satellites transmitting TV in the U.S. have an output of 5 to 7.5 watts. The Direct Broadcast Satellites (DBS) which are intended for transmission to homes by contrast will have up to 200 watts output and can be received by a dish as little as 60 cms across. DBS is scheduled to begin in the UK in late 1986 and in the U.S. in 1985-86.

According to Doug Saxon, founder and president of Satellite Systems a specialist Canadian company, there are two clear categories of people who are buying these satellite receiving systems in North America.

> One of the several controversies surrounding this industry is the fact that users are 'stealing the programming.'

He says one group are well-educated professionals like doctors and lawyers with high earnings who want to watch 24-hour news, specialist programmes and stock exchange information. This group is also likely to enjoy the status of an impressive large satellite dish outside their homes.

The second, and newer, group are shift-workers particularly in the remote logging and mining camps in Canada. They are highly paid and isolated. They buy the systems to receive the films, Playboy Channel and other "adult" video programming and the sports channels.

One of several controversies surrounding this industry is the fact that the users are in fact "stealing" the programming. The companies which are including advertising in the satellite transmissions—such as Ted Turner's news service—are of course entirely happy if more people watch their programmes. But premium services such as Home Box Office (HBO), the leading U.S. cable TV company which shows films and special events, is expected to start scrambling its broadcasts early next year.

> Anyone with the equipment can watch—illegally—120 channels transmitted from 14 satellites visible in North America.

Also Canada scrambles the television broadcasts from its Anik satellites—this does not greatly bother anyone as most Canadians prefer U.S. television. But as Doug Saxon points out: "Scrambling becomes a challenge. A lot of these guys (with satellite TV receivers) are geniuses and they sit there for hours developing a de-scrambler."

One result has been a descrambler for the programmes on Anik which will cost $100. But a company which develops a scrambler will always be able to produce the descramblers cheaper than the "pirate" because of economies of scale.

Chris Schultheiss says that HBO's decision to scramble may cause a temporary lull in the satellite receiving business but points out that only 15 per cent of the programming available from satellites is premium broadcasting and therefore likely to be scrambled.

Another technical illegality of this hobby is that the programmes are being received from communications satellites and therefore, in a sense, doing the same thing as tapping a telephone. Until last year it was illegal in Canada for unlicensed individuals to use a satellite receiver and there was a furore when the Mounties started pulling down the private earth stations.

MANAGEMENT SUPPORT

Putting decisions on the desk top

BY ELAINE WILLIAMS

Express is capable of running on minicomputers as well as mainframes

LAST WEEK, Management Decision Systems, the U.S. company which aells decision support software, announced that it was setting up a UK subsidiary.

In the U.S. the company has already built up a US$ 25m business in a market which is aimed at the top blue chip companies. Now it bas invested £50,000 to enter the British market.

Decision support systems are essentially highly sophisticated computer-based in formation systems which are used hy executives, managers and policy makers in managing corporate finance and market planning.

Mr Roderick Whyte, managing director of the new UK subsidiary, describes decislon support systems as "the next hig step in computing development." He continued: "A great deal bas been done over the years to provide computer leverage to clerks and accountants in processing data. What is needed now is leverage for managers, to help them make, and commnnicate, decisions."

The bedrock of Management Decision Systems, MDS, business is Express, a software system which integrates a database of extracted and summarise management Information from both company and external sources, report generation and graphics capability, statistical manipulation with model building facilities.

MDS says that Express is now used by almost 250 of the largest corporations in the U.S. including companies such as Kodak, Unilever, Polaroid, AT&T and Xerox. Initially Express was designed to run on large IBM computers and had a price tape of about £150,000.

More recently, the company bas been moving down market. Last week it announced both a Prime minicomputer stand alone Express package and a system which allows the IBM personal computer to link into a mainframe wbich runs Express.

Express-Mate, as the system is called, is a personal computer communlcations package which turns the IBM PC into a full Express workstation. The system features automatic log-in, local editing and file transmission. The package also automatically reformats data so that it allows Express to communicate with a variety of microcomputer such as VisiCorp's VisiCalc; Micropro International's Wordstar, Software Produces's Procalc to name but a few.

Another PC package which works with the Express system is Lotus Development Corporation's 1-2-3 spreadsheet database management and graphics software.

The Prime minicomputer based system runs on the E300 and E600 modes and can support 12 to 16 users. Prices for this system start at abont £80,000.

Alternatively DMS says that it will introduce a timeshare system supported by the company in the UK. This follows the introduction of similar services lannched in the U.S. in 1977 and France—the site of the company's European headquarters—two years ago.

Management Decislon Systems was founded in 1967 by professors at the Sloan School of Management and the Wharton School of the University of Pennsylvania.

Memory

More opt for optical card

LATEST LICENSEE for Drexler's optical card technology is Honeywell Information Systems, bringing the number np to 10.

Under the $300,000 non-exclusive licence, Drexler grants world right to patents, technology and the designs of four prototype equipments that use the Drexon Laser Memory Cards. Honeywell also receives distributor rights to market the cards, made by Drexler in a new plant in California with a potential throughput of 25m cards a year.

The other nine licensees are Canon, Elbit Computers, Ericsson Information Systems, Fujitsu, Logitec/Kanto Denshi, NCR, Omron, Toshiba and Wang.

The equivalent of 800 pages of British text can be stored on one of the cards, which is about the size of an ordinary credit card. Cost is about $1.5 per card. In digitised form, almost anything can be recorded on the card including photographs, graphics, voice-prints or fingerprints. More on (415) 969 7277 in California.

Electronics

Security camera

RCA SAYS that it has developed a closed circuit television camera without a conventional tube. The new range of camera which is scheduled for delivery this quarter has applications in night surveillance and industry. Cost of the cameras begin at U.S.$1,695.

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Labour's new leader

MR NEIL KINNOCK was last night overwhelmingly elected leader of what is still, at least to judge by the number of seats in the House of Commons, easily the main opposition party in Britain, and it would be churlish not to congratulate him. Mr Kinnock is young, pragmatic and fought a good campaign. There is no doubt that he is the candidate whom the majority of the Labour movement wanted.

Equally, Mr Roy Hattersley deserves credit for having spoken freely during the campaign and for being ready to serve as deputy to a younger man. Kinnock-Hattersley may not be exactly a dream ticket, but it was the one most to Labour's liking.

Yet the tasks before the new leadership are formidable. It is true that there is no historical inevitability about the party's decline. Left-wing movements in other countries have not only survived but flourished, despite similarly changing social and economic conditions. The Socialists in France, the Social Democrats in Sweden and even the Communists in Italy all come to mind as examples of parties which have recently won a large share of the vote. Even in Britain the Labour Party was in power less than five years ago, having won four out of five of the previous general elections.

The decline is real, none-the-less. Not only has Labour's support been falling, it is also in danger of being overtaken as the main opposition party by the Alliance. Only the British electoral system gives Labour its advantage in terms of seats.

Divisions

Given the international comparisons, as well as the internal evidence, it is hard to avoid the conclusion that the wounds have been largely self-inflicted. When the then Mr Wilson was first Prime Minister in the 1960s, he was perhaps right to place the emphasis on maintaining party unity after the strife of the Gaitskell years. By the time he returned unexpectedly in the mid-1970s, however, the divisions were again deep. Mr Callaghan managed for a while by appealing to the country rather than the party but even he lost the only general election he ever fought as Labour was again divided.

The election campaign this year was another example. Labour over time has become synonymous with disunity: over defence, over Europe, over the economy.

There have been signs over the summer that the party has begun to learn this lesson: hence the relatively good-natured leadership campaign and the way the movement, by-and-large, flocked to the Kinnock-Hattersley ticket. Yet the campaign was not on the whole about policy. It was more a recognition that it was time to turn to a younger man, unscarred by most of the old battles and with apparent political flair. What the leadership has to recognise now is that there are limits to which policies can be blurred. The electorate has seen through the old fudges.

Deficiencies

There is another lesson to be learned. Elections, particularly general elections, are two-way processes. Not only does a party offer its wares to the public; it also receives a response in the way the country votes. Too often it seems that the Labour Party has not been listening. The evidence of elections, of repeated opinion polls and of the doorsteps is that Labour is no longer offering what the electorate wants. Perhaps only on the social services did Labour have the edge over the Conservatives last June; even on unemployment it lacked the ability to persuade people that it could do better.

Mr Kinnock is too intelligent a man and too good a politician not to realise these deficiencies and there have already been some indications of policy changes over the last few weeks. The party, too, is still not unduly short of talent: Mr Eric Varley, Mr John Smith, Mr Gerald Kaufman and Mr Peter Shore all have something to offer, as well as some of the younger MPs. Possibly the very scale of Labour's predicament, plus the fact that the SDP horse has already bolted, will concentrate the mind. There is, after all, still room for a party which stresses greater social equality and a more active government role in economic management. It remains, however, that in all foreseeable circumstances this must be Labour's last last chance.

Consequences of deregulation

THE MOST effective way of reducing the monopoly power of trade unions is by changing the structure of industry to make it more competitive. It is in highly concentrated industries where price competition is relatively weak that collusion between management and labour tends to produce excessive wages.

When these industries are forced to come to terms with new sources of competition, as is happening now among the U.S. car and steelmakers, management is obliged to bring labour costs under control and to negotiate new approaches to wage bargaining. If, as a result, the "cost-plus" approach to wage-and-price-setting can be broken, the outlook for inflation will be very much improved.

The same phenomenon can be seen in the process of deregulation. Some U.S. industries, like the public utilities, the airlines and the trucking business, have been partially protected from competition by federal and state regulation. It has proved difficult to devise a regulatory system which exerts the same pressure for cost reduction as a competitive market. The authors of the Airline Deregulation Act of 1978 believed that regulation in the airline industry could, subject to safeguards, be largely replaced by competition and the result would be lower prices and better service.

Pilots' threat

The effects so far seem to have justified these hopes. Pricing is playing a more important part in the airlines' strategies. Instead of arguing about prices before the Civil Aeronautics Board, the companies are free to change prices (within certain guidelines) on their own initiative. More important, new entrants, like People Express and Southwest have been able to challenge the established carriers from a much lower cost base. According to a study made in 1981, costs per seat in United Air Lines, one of the largest domestic carriers, were roughly twice as high as those of Southwest over the same routes.

Costs which were appropriate in a regulated environment are no longer tolerable. This is the background to the efforts now being made by Continental Air Lines to impose a pay cut on its employees. Whether the decision to file for protection under Chapter 11 of the bankruptcy code was the right tactic in these circumstances is open to question; the immediate result has been to provoke the threat of a nationwide strike of pilots. But drastic remedies are needed if the company is to survive. Interestingly, one of the earlier proposals was that Continental's employees might give up certain concessions in return for a share in the equity. Direct labour costs would be cut, and employees' total income would be related more closely to the company's profits.

Price war

Some critics of deregulation have warned that price competition might become too fierce. With ample capacity and sluggish traffic growth, price wars are breaking out in some parts of the U.S. There is a fear that stronger companies might use predatory pricing to drive their smaller rivals out of business—and, having done so, to recoup their losses by charging monopoly prices. But as long as entry barriers are kept low, there should be little opportunity for monopoly profits to be achieved in this way. There is bound to be a degree of turmoil as airlines adjust to the changed climate; the anti-trust authorities have to ensure that the rules of the game are observed.

In much the same way the Motor Carrier Act of 1980 was designed to reduce regulation of the trucking industry and to inject the business with heavy doses of competition. The statute made entry for new operators easier and introduced greater flexibility in fixing rates. Some of the new entrants pay wages lower than those negotiated with the principal union, the International Brotherhood of Teamsters. As in the airline industry both union and employers have had to change old habits, so that costs and prices reflect the new competitive situation. Deregulation is a powerful weapon in the fight against inflation.

TAX AVOIDANCE IN BRITAIN

There's always a new loophole

By Clive Wolman

YOU CAN often spot groups of them on a weekday morning at Jersey airport waiting for a flight to Paris, Geneva or some other congenial continental city. They arrive in time for lunch, hold a quick board meeting, sign the minutes and return together to their Channel Islands base.

Such are the tax-dictated obligations of the directors of the offshore "roll-up" funds, which have become one of the most popular tax avoidance schemes ever to be marketed to the British public.

Last month, Mr Nigel Lawson, Chancellor of the Exchequer, announced that he would be introducing legislation to close the loophole which allows the funds to convert their clients' heavily taxed investment income into lightly taxed capital gains.

Among the fund managers, however, there is a widespread belief that whatever blocking legislation is included in next year's Finance Act, they will soon be able to find other loopholes.

For the flow of more than £1bn across the Channel into these funds over the last 12 months is just one symptom of a disease which is once again spreading through Britain's loophole-ridden tax system.

In 1981, hopes were raised, not least in this newspaper, that two major judicial rulings of the House of Lords would undermine the attractions of tax avoidance. Since then, the Rossminster Group and other sellers of highly convoluted off-the-peg tax avoidance schemes have put up their shutters. The end of their schemes alone is bringing in an extra £400m a year in taxes, according to Mr John Isaac, deputy chairman of the Board of the Inland Revenue.

But the complexity of the British tax system continues to grow, as do the costs of collection for the Inland Revenue, companies, investors and employees. One estimate puts the total administrative costs of UK income tax, including lawyers' and accountants' fees, at 5 to 6 per cent of revenue, much higher than in the U.S.

At a conference of the Institute for Fiscal Studies in Oxford two weeks ago, tax experts agreed that the Inland Revenue had failed to obtain a general anti-avoidance charter from the courts which would block all artificial schemes. Mr Isaac conceded that the courts had not agreed to adopt the U.S. approach of disregarding, where necessary, the legal *form* of transactions to examine whether they had any genuine commercial motive other than tax avoidance. "We are still a long way short of the doctrine of substance over form," he said.

Earlier this year, the Court of Appeal took some of the sting out of the 1981 judgments of the House of Lords when it accepted a scheme to avoid capital gains tax on the sale of shares by passing them through an Isle of Man company set up for the purpose.

As Mr Basil Sabine, tax accountant at Deloitte, Haskins and Sells, said in Oxford: "There have been several peaks of judicial decisions against tax avoidance over the last 100 years, but these have always been worn down to acceptable levels. This time the pendulum may already be swinging back."

'I THINK WE'VE FOUND THEIR LOOPHOLE, SIR'

The lawyers and accountants at the conference agreed that, under the new approach, schemes without a shred of commercial or common-sense could not survive. Mr Stuart Bates, QC, said that the courts could now look on a set of transactions not on a step-by-step basis but as a whole, to see whether they made any commercial sense, apart from avoiding tax, or whether they were designed to cancel each other out so that at the end of the day any assets involved would return intact to their original owner.

But several speakers pointed out that this tougher approach could be neutralised if the purveyors of schemes put on them only a fig-leaf of commercial justification.

For example, the benefits-in-kind scheme described in the panel is not self-cancelling if the employee's position has altered materially. It could mean that he no longer has the same employment protection as he had before, nor the same pension rights so on a narrow interpretation of the 1981 decisions, that could be enough to justify the scheme.

It may also be unnecessary to complete a circle of transactions immediately. In the stamp duty scheme, for example, the house purchaser need not surrender his agreement immediately, thus exposing the artificiality of the scheme. Instead he can wait in the hope that the uncompleted scheme would withstand the scrutiny of the taxman or the courts.

As Mr Barry McCutcheon, a tax consultant to accountants Ernst and Whinney, said: "There is quite a range of avoidance schemes which are not affected. Their resilience should not be underestimated. They need make only a modicum of sense."

The problem of tax avoidance has been aggravated by the general practice of English judges of focusing narrowly on the legal form of transactions and arrangements and on the precise words of Acts of Parliament. This has meant that every tax concession introduced by a Government has to be followed by a mass of barely comprehensible anti-avoidance provisions in an attempt to block up every conceivable abuse. Even then, new schemes are dreamt up.

Lord Denning, the former Master of the Rolls, has long advocated adoption of the Continental approach whereby judges are given more discretion to decide cases in line with general principles. But the problems of uprooting a centuries-old legal tradition have deterred his former colleagues.

Not surprisingly, most of the lawyers at the IFS conference opposed giving anyone more discretion to decide on tax matters. Many complained that the 1981 court decisions had already conceded too much to the Inland Revenue. "They are using the decisions to make the flesh of taxpayers creep. There is too much uncertainty," said one lawyer.

A more fundamental problem, however, is that the principles of taxation themselves are not clearly defined.

Mr John Kay, director of the Institute of Fiscal Studies, traces the vast majority of UK tax-avoidance schemes to the confusion over what counts as capital and what counts as income (or "profits" in corporation tax terms). In all the tens of millions of words of tax law, no definition is ever given of income.

Income is currently taxed at rates of between 30 and 75 per cent. By contrast, the first £5,300 of capital gains made by individuals in any one year is not taxed at all. Thereafter, tax is imposed only at a rate of 30 per cent. Also, no tax is imposed on that element of capital gains which merely compensates for inflation.

On the face of it, the distinction between investment income and capital gains appears easy to grasp. Investment income represents the secure and stable returns from wealth, usually in the form of interest or dividends, while capital gains are windfall profits from, say, the sale of a house or the family's silver.

But because of the different tax rates applied to each, the tax-avoidance industry has long sought ways of converting investment income into capital gains. The "roll-up" funds, which plough back the interest they pay to boost the value of the shares held in the fund, are only the latest scheme in a long tradition.

One of the most popular schemes has always been "bond-washing," designed to avoid the receipt of dividend from, for example, gilt-edged securities. Shortly before the dividend payment is due, the gilt is sold to a non-taxpayer at an augmented price in anticipation of the dividend payment. It may be bought back again afterwards.

Legislation to discourage this practice dates from 1927 and more and more clauses have been added over the years to block variations on the theme. However, in 1980 the House of Lords accepted that a loophole allowed basic-rate taxpayers to bond-wash.

Lawyers anticipate that the Government's draftsmen will have similar difficulties in seeking to kill off the offshore roll-up funds. These funds avoid not only income-tax for their clients, but also corporation tax by holding their board meetings outside the UK and Channel Islands.

Mr Robert Venables, a former Oxford University lecturer on tax law, and now a barrister, believes that the simplest legislation that could be introduced by the Government would impose income-tax on any income accruing to the fund which had not been liable to UK tax as though it were the income of the individual clients of the fund.

The problem with this approach, however, is illustrated by the operations of the Sterling Reserve Fund run by Lazard's, the merchant bank. The fund avoids the receipt of income itself, frequently by bond-washing. In effect, the conversion of income into capital gains is passed back further along the line.

In a book on the tax system,* the third edition of which was published last month, Mr Kay argues for the abolition of the present system of income-tax, capital gains tax capital transfer tax and corporation tax. In line with the proposals of the Cambridge economist Lord Kaldor and the Meade Committee on tax reform, he advocates a cash-flow tax on corporations and a progressive expenditure tax on individuals.

By expenditure, he means a person's earned income *minus* any money he puts into savings and investments (as with money put into pension plans today) *plus* any money withdrawn from savings and investments and spent. Thus there would be no need for a distinction between income and capital gains—and the problems caused by inflationary gains would also be removed. All gifts would be taxed at the same progressive rates as expenditure, thus destroying those capital transfer tax avoidance schemes which exploit exemptions or convert gifts into expenditure (as with the deferred annuity schemes).

Mr Kay believes such a reform would achieve a more effective distribution of wealth, particularly inherited wealth, and reverse the trend towards the institutionalisation of savings through pension plans and insurance policies. But the main benefit would be to simplify the tax system and remove many of the anomalies and avoidance possibilities that ultimately serve only to impose a heavier burden on the average unsophisticated taxpayer.

Some conceptual ambiguities would remain and with them the possibility of avoidance. The major outstanding one would be the difficulty of distinguishing between a genuine business expense and personal spending, which has thrown up a variety of schemes paying out benefits-in-kind to employees.

As Mr McCutcheon says: "Avoidance will always be with us if we try to impose a grid of tax laws on an economic system as sophisticated as ours. You cannot hope to capture all the possible range of transactions."

*J. A. Kay and M. A. King. The British Tax System. Oxford University Press.

THE LATEST IN "TAX-PLANNING"

THESE are some of the schemes which more adroit tax consultants are selling to favoured clients to help them cut their personal tax bills:

How an employee may avoid paying income tax on most of his earnings.

Benefits-in-kind, such as company cars, housing, interest-free loans, holidays and entertainment, are not subject to tax if the employee earns less than £8,500 a year from any one employer.

Under the scheme, the employee divides his work as far as possible into different types of activity. For each he is employed by a different and independent management consultancy firm based offshore. These firms then hire out his services to his original employer or employers.

Each of these firms pays the employee in benefits-in-kind to an annual value of less than £8,500. The method of evaluating each benefit for tax purposes, particularly housing and cars, means that in practice benefits worth far more than £8,500 may be given before any income tax needs to be paid.

How to give away unlimited chunks of wealth, worth up to several million pounds, without incurring any liability to capital transfer tax.

The donor purchases an annuity for the full amount of the wealth he wishes to pass on with an offshore insurance company. He has the right to defer the annuity, in return for expecting a larger sum ultimately. But he continues to defer until his death.

The insurance company re-insures the deferred annuity with another company, which, directly or indirectly, is owned by the intended heirs of the annuity purchaser so that, when he dies with the annuity unclaimed they reap the benefit.

How a house purchaser may avoid stamp duty.

The purchaser of a freehold property makes an agreement with the vendor to buy only a very long lease for which he pays the full price. The purchaser's spouse buys the freehold reversion at the same time for a nominal sum; below the stamp duty threshold.

The purchaser allows his rights under the agreement, which is not liable to stamp duty, to lapse, so that his spouse takes the freehold unencumbered by any lease.

Men & Matters

Back in business

The Confederation of British Industry is unlikely to figure on many people's lists as a fun place to be. Interesting and stimulating, maybe, but not exactly fun.

Yet Bryan Rigby, who leaves at the end of this year as a deputy director-general after five years with the CBI has happy memories of his time there—"I've had a ball, I must say."

Now, he will have to start brushing up his German. For tempting him away from the CBI is an offer from West German chemical giant BASF to run its growing UK activities. Rigby, a powerfully built 50-year-old who plays golf, gardens, and likes "serious music," clearly relishes the idea of returning to the industrial fray.

Before being headhunted by BASF, he was not seeking a change. But he is now eager to "go back and get hold of another profit and loss account." Before the CBI, he had spells with the Atomic Energy Authority and with Beecham (including some time in Germany) and Laporte, where he was commercial director.

The last few years, reckons Rigby, have brought about a substantial change for the better in attitudes within British industry. "We had got ourselves into bad habits by the end of the 1970s." Now, what's left of industry is in better competitive shape. "But this has happened against a background of a deep recession and a lot of pain."

Bank manager

Now that Grindlays Bank's confusing ownership problems have been sorted out—Citibank of the U.S. owns 49 per cent of the parent group—it has reached across the Atlantic for a new man to become the chief executive.

"The last piece of the jigsaw," was how Alec Ritchie, who moves from the chief executive post to become chairman at the end of the year, described the appointment of Bob Logan to succeed him.

Logan — "an enormously energetic person" in Ritchie's words—has spent the last three years off the banking scene at Continental Grain in New York, where he is senior vice-president and chief financial officer.

But he previously spent some time with Citibank, where he ended up as executive vice-president responsible for the world activities of the merchant banking group. He was also on the Grindlays Bank board up to 1981.

Clearly, the past Citibank connection was a key factor in the choice of the 50-year-old Logan, who was actually born in Berwick-upon-Tweed just south of the Scottish border and has an English wife. Ritchie asserts, however, that Logan will be his own man: "There's no question of us going back to the days when people were seconded to us from Citibank."

Shopping spree

This week could be a soul-searching time for City fund managers — at least for those who decided to keep out of the whirlwind sale last week of the Richard Shops fashion chain.

Sir Terence Conran, head of Habitat Mothercare which agreed on Friday night to take indirect control of Richard Shops from Hanson Trust for £30m, says he first learnt of his opportunity just after three o'clock on Wednesday afternoon.

Not enough institutional money had come in for the planned management buy-out which had to be completed by the end of the week with the easier buy-out of the John Collier menswear chain — Hanson insisted on the deadline to coincide with its financial year-end.

"This rock has got Meacher lettered through and through."

Would Conran supply the missing £6m, he was asked, having been told by merchant bank Kleinwort Benson and stockbroker Laurie, Milbank of the financing gap? No, he replied. He wanted the lot as he had since Hanson took over Richard and Collier parent UDS in April.

Conran is keen on the "first-rate property portfolio" which the 217 Richard Shops make up. "It's probably the best in the High Street" and he likes the top management, all in their late 30s.

So why were many institutions so wary? Relatively new management could be one reason, feels Conran. Another could be the chain's lacklustre record in recent years.

Some £7.5m of institutional money, believed to be from a French bank, became available to support the original buy-out plan on Friday. But by then the deal with Conran had been set up and approved by Richard Shops. Anthony Stafford, the new 39-year-old managing director who came from the Wickes chain, says he was "naturally delighted" at the outcome.

He was having e meal in an Algarve restaurant in Portugal this summer when the idea of running the shops was put to him. He flew right back to meet the Richard management. "He'd just sat down with his family and we burst in on him," relates David McMeekin, a Laurie, Milbank corporate finance man closely involved in the deal.

Slipping crown

Moving into the chill world of commercial reality is proving tough for many of the 1,200 employees of the Crown Agents, from whom oil-rich Brunei snatched eway responsibility for managing £3bn ef its investment funds this summer.

Up to 300 jobs are scheduled to go as the management attempts to make the Crown Agents, as managing director Alan Frood puts it, "more akin to a commercial organisation than to a civil service department."

Of these, around 80 will be caused by the removal of the Brunei funds, which made up the bulk of the Crown Agents' portfolio activities. A number of people in the investment division—the Brunei deal also involved work on funds handled elsewhere—are already sitting at home on full pay.

The Agents, who also provide purchasing and other services for governments, have already cut staff from 2,100 in 1979. Further job losses were being pondered. "The Brunei situation," says Frood, "has given this added impetus."

Losing touch

Heard in a City boardroom: "You can tell the chairman's getting on a bit, old boy—these days, he isn't half as decisive as he used to think he was."

Observer

THE ARTS

Architecture

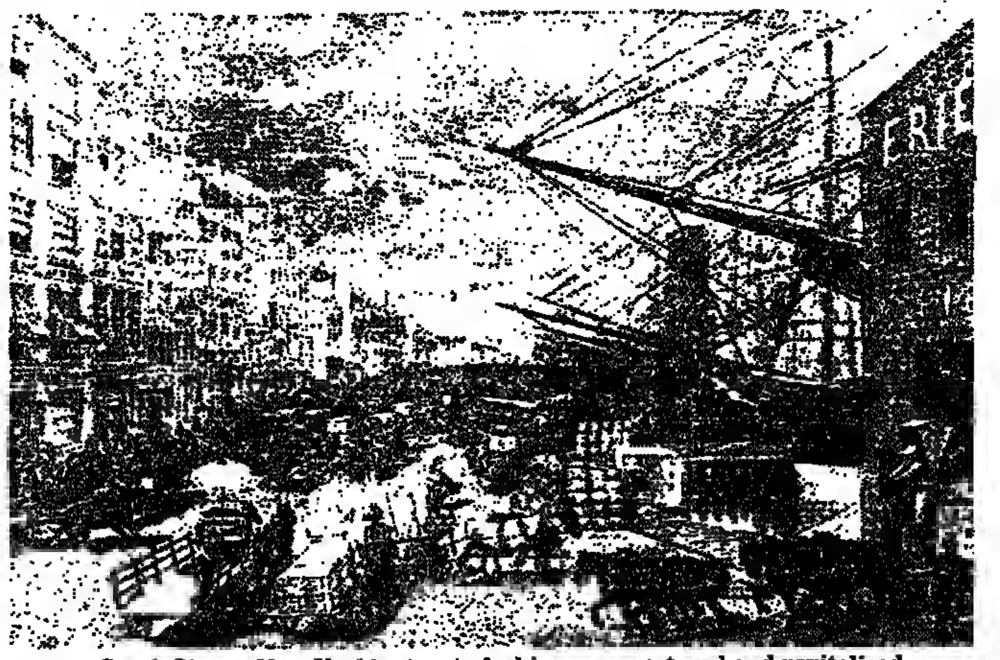
Colin Amery

Downtown renewal in New York

New York is a city with an architectural culture. This does not mean that the average man in the street is always on the look out for the latest work of a leading post-modernist or that the grand houses by McKim Mead and White up in Harlem have become places of pilgrimage. I suspect that the reason for the growth of this architectural awareness comes from the fact that New York is always building, always changing, and always in the thick of the business of making money out of property.

In this it is no different from the other major cities of the world but there is an added dimension—architecture is in the air. Last week the unveiling of the great statue of the "Golden Boy" as the new centrepiece of the lobby of Philip Johnson's new Headquarters for the American Telegraph and Telephone Company was front page news in the *New York Times*. A. T. and T. is the new landmark of the city mainly because it is the first of the newest batch of skyscrapers to be built in the post-modern style. Topped by a huge broken pediment it looks across midtown Manhattan at its glass and steel neighbours with a calm granite contempt.

The sparking point of the newest architecture in the city continues to be the past—although by European standards that past is comparatively recent. *Only five minutes from* Wall Street is New York's newest slice of the past. The South Street Seaport area of the city is gathered around the former Fulton Street dock and market area. It covers 11 city blocks and is comparable to London's Covent Garden, the Faneuil Hall Market Place in Boston and the revitalisation of the barbour area of Baltimore.



South Street, New York's street of ships, now restored and revitalised

There are a lot of lessons here for British cities and for the revitalisation of London's dockland in particular. The particularly revealing aspect of the organisation of the project is the integration of the private and public elements of the city. To save the historic qualities of the area the South Street Seaport Museum was established in 1967 with an affiliated corporation and this is united with the Rouse Company, the City of New York and the New York State Urban Development Corporation. The result of this *integration of interests* is an area where commercial, cultural and historic concerns have been successfully combined.

The complex integration of interests is visible when you walk into the centre of the scheme, a pedestrian street between the new Fulton Market building and the restored Schermerhorn Row. The Row is a very good street of 19th century warehouses with very steeply pitched roofs and restored, but non working chimneys. On the ground floor of these restored houses are the shops that all have well designed and carefully lettered shop fronts. There is a strong feeling of the recreation of a maritime past that is effective on one visit but would in time become rather like the gingerbread ladies of Williamsburg — too historic to be true.

I was intrigued by the desire of the various parties behind this scheme to create the ambiance of the past in a way that is completely new. In almost every city of America there is a quarter that is full of small scale shops selling herbal teas, posters and the comforting charms of the tallow chandler merchants, but is it history?

What the South Street Seaport does provide for the city of New York is the kind of pedestrian area, restaurants with tables outside in the sun, and the scale of the past, that has in so many other parts of the city been swept away.

Particularly pleasing in this project is its relationship to the waterfront. Bearing in mind how London has always managed to ignore the Thames, there are lessons here. The great attraction is the view of the fine web of steel that makes up the Brooklyn Bridge. You walk to the water's edge on solid diagonally laid wooden boards passing by the four-masted barque the *Peking*. This is such a remarkable ship that she will become the symbol for the whole area. It is romantic to see those giant masts at the end of the street, strong reminders of the days when she carried an acre of sails and laden with nitrates from South America, sailed to deliver the cargoes that fertilised the fields of Europe.

Nearby a new pier is being built that is designed by architects of the market building, Benjamin Thompson and Associates. This will be an interpretation of the kind of Victorian piers that were once such a feature of the old New York. In the centre of the new pier will be a long grand arcade giving access to 120 shops and places of resort.

There are people in New York who decry the lack of sophistication in this recreation of history. The new market building does have its moments of excessive enthusiasm for the "symbolism" of the fish trade but the whole atmosphere and scale of the venture will ensure that an overdose of Victoriana will only be seen as an antidote to the excesses of 20th century life.

The particular lessons for London are the prevalence of good indoor space — unlike the draughty piazza in Covent Garden which is unusable in the winter, the consciousness of the water and the urban views, and a high level of interior design—particularly the new restaurant, Giannis, which is one of the best looking in the city.

One of the most remarkable things about the architectural culture of New York is the programme of walking tours and exhibitions. No one interested in the architecture of the city should miss the Municipal Art Society which is based at the restored Villard Houses in the Urban Centre—457, Madison Avenue — just behind St Patrick's Cathedral. Until October 26 a show of the beauties of New York's terra cotta decoration is on view there. Called *Rhapsody in Blue, Terra Cotta Skylines* it is a good display of the folk art of the building trade that sometimes led to remarkable feats of decorative richness.

There is a full programme of walks and talks about the architecture and design heritage of the city, a remarkable bookshop and a regular newsletter that keeps everyone abreast of developments in the city, including threats to landmarks. The motley array of preservation societies in London could learn a great deal from the dynamism of this centre for the spread of the knowledge and love of architecture.

Felicity Palmer and Kenneth Woollam

Alastair Muir

Rienzi/Coliseum

David Murray

Wagner was 27 when he completed *Rienzi* (the overture last) in 1840; by the time of the first performance, two years later, he had already composed *The Flying Dutchman*. *Rienzi* has been permanently relegated, after a brief initial *éclat*—for the operatic master showed bas hand only with with *Dutchman*, and everything really interesting about *Rienzi* belongs to hindsight. It is a perfect candidate for opening the English National Opera's three-year series (with the inspired sponsorship of Norwest Holst) of awkward but important works, each to be given just one run of well-prepared but thrifty performances. *Rienzi* is a piece that is Very Good to Have Seen; once is enough, but Nicholas Hytner's brilliant ENO staging will leave a sharp stamp.

What Hytner has done is to take a piece which, though full of embryonic Wagnerisms, is also insufferably long, prolix and diffuse, and trim it to a tight focus. The result is frankly one-sided but immediately exciting; it is loaded, exultant music-theatre. To the charge that it narrows Wagner's vision by Procrustean means, there is the unanswerable retort that a more generously treated *Rienzi* would make a deadly opera: how could *that* be truer to Wagner?

Cola di Rienzo, detto Reinzi, was a 14th-century Roman plebeian who became "the last of the Tribunes," a charismatic figure who wrested away power from Rome's warring aristocratic factions. Wagner found him in Bulwer-Lytton's novel. The opera *tells a simplified* version of his story—originally at unconscionable length, for the lofty young Wagner was determined to produce a stage-work of such superb pretensions that it would defeat performance by mere provincial companies. The score is infested by grand marches, stuff for processions and pantomimes, and musically inert recitative. Rienzi himself gets a fine dramatic trajectory, intermittently visible amid the public pomp, but all the other characters are imagined in conventional moulds, effectively or not according to the list of Wagner's still-unreliable inspiration.

Hytner makes Rienzi a modern Fascist leader, which gets much of his political side about right; the private man suffers, for the blackshirt paraphernalia and the multiple Big Brother images set him at an ironic distance too great for us to accept him at Wagner's own sympathetic valuation. But that side of the opera is anyway patchy and unsure, and it is brusquely schematised here in favour of the other vision. David Fielding's designs, magnificently realised, give us hallucinatory dream-Fascist architecture and monuments, luridly lit by Pat Collins to terrific Broadway-brutal effect (I fancy that the back-lighting of *Dreamgirls* has supplied some cues). Stretches of propaganda film abide the stage monsters with apposite 1930s footage.

If the music were scamped, all this would be just irritatingly clever. The music is not scamped, though it is ruthlessly cut back by almost half its original, indulgent length (with very little loss of real incident). The conductor Heribert Esser treats it with virile sympathy, finding high drama and beautiful details—this is most distinguished, *serious* work. The great white elephant in *Rienzi* is an interminable pageant that cannot simply be deleted, since it culminates in an assassination attempt; with wicked ingenuity (and ecobomy!) Hytner reduces it to a children's massed P.T. demonstration before the dictator and his rebellious guests—and nonetheless Esser shapes the parade-ground music with as much musicianly care as everything else.

Rienzi is Kenneth Woollam, all but tireless in an exhausting tenor role, declaiming away like a kindly fanatic. He contrives to be moving, against heavy odds, in his heart-searching Act 5 *scena*. (The loss of the later duet with his sister Irene is perhaps the one point where something important in Wagner's human plan has been sacrificed to the production-idea: Hytner prefers to drive straight through to the theatrical cataclysm, which looks splashy but a bit over-familiar now, with its tanks and glaring searchlights.) Kathryn Harries' Irene is full-voiced and finely consistent; Felicity Palmer brings formidable power and cutting edge to Adriano, a breeches-part—though her voice and Miss Harries' do make quite the right contrast in timbres.

Various henchmen and plotters *are solidly represented by* Dennis Wicks, Malcolm Donnelly, Sean Rea, Alan Woodrow and Geoffrey Moses. The physical action is manned by busy actors, while the excellent singing chorus sit high above them with their scores in hand: another thrifty, perfectly successful idea. The whole provides illumination as well as pyrotechnics, and is not to be missed (there are eight more performances between tonight and October 28). If the later reaches of the opera are somewhat manhandled, I must recall the only previous *Rienzi* I have seen: in conventional respects it was more "faithful" to Wagner, and it did him far less credit.

Silver threads among the Dublin Theatre Festival

It is a hard life being an Irish theatre critic. A couple of years ago, David Nowlan of the Irish Times was doused with a pint of bitter by an irate dramatist after delivering, that morning, a rude notice of her work. On Friday morning, at the ritual Press conference after the première of Thomas Murphy's *The Gigli Concert* at the Abbey, the same Mr Nowlan was roundly abused by the playwright for having written a favourable notice which, for Mr Murphy's taste, was not favourable enough.

Admittedly Mr Murphy's point was that it was impossible for a critic with a pressing deadline to do *justice* to a three-and-a-half-hour play which had taken him two years to write. But, in Dublin, the lion does eventually lie down with the lamb. Messrs Nowlan and Murphy adjourned after the shindig to take coffee in the hotel *bar*. *And, as a final* penance, Mr Nowlan on Saturday morning reported the fracas with a curiously muted objectivity.

The Gigli Concert is the centrepiece of the 25th Dublin Festival. It is indeed too long, too cumbersome and distinctly uneven in quality. There are some wonderful patches of writing for the central duet of a successful property developer, who wants to exchange his entire life for five minutes' of Gigli's talent, and his quack therapist, an eccentric English dynamatologist with problems of his own.

A classic Irish religious debate just before the main interval sends you reeling and exhilarated from the theatre. And the evening's high point is an amazing primal bowl by Godfrey Quigley (as the developer) which is elided by the actor into an extended sing sob eventually submerged in a recording of Gigli's version of a popular, melodic "Agnus Dei."

The third character, very well played by Kate Flynn, is a promiscuous housewife with designs on the therapist. The *latter*, in Tom Hickey's technically adept and occasionally funny performance, is himself a suitable case for treatment and, in this respect, the play scores some resonantly accurate points on the whole business of psychoanalysis.

Patrick Mason's production is probably correct to follow the list and roll of Mr Murphy's over-laden cargo boat, and the soundtrack of Gigli extracts is expertly organised by Jim Colgan. On Thursday night the play was received with a standing ovation, but it was impossible to tell whether people rose to their feet in spontaneous ecstasy or because they were suffering from pins and needles.

Either way, the power of Mr Quigley's performance is undeniable, a blockbuster display of bullish charm, poignant frustration and sheer beauty of physical expression. Black homburg, at a rakish angle, shoulders set square against the futility of his own mangled and trivial domestic and professional life, Mr Quigley is the Salieri of modern Dublin, the very embodiment of the tone *deaf singer who cannot heave* his soul into his mouth.

An Abbey author of a previous era, M. J. Molloy, is honoured by the Druid Theatre Company of Galway in the Edmund Burke Hall of the university. *The Wood of the Whispering is full of* Synge echoes but, set outside the walls of a crumbling demesne in East Galway, it deals in plaintively sentimental terms with a community on the brink of disintegration due to mass exodus across the water. The year is *1950*, and the *landscape* had not been so decimated by a wave of emigration since the potato famine.

So we have a cast of comical old bachelors, dithering youngsters, rustic eccentrics, and an overseeing spirit of the countryside, Sanbatch Daly (Mick Lally) whose invention of a lethal poteen is literally and symbolically exploded by the argument that an economic future can only be achieved by the young generation "making a go" of Ireland.

This all sounds a bit twee and dusty in the present day, and the overriding sentimentality of the play's attitudes and conclusions somewhat regressive. But in a city which loves its womanish blather and chatter even when, as it usually is, practised by males, the humour and vivacity of Molloy's characters have an obvious appeal.

Marie Mullen is quietly moving as an old spinster of the hedgerows, Ray McBride amusing as a cripple elder submitted to a farcical humiliation in a wheelbarrow, and Sean McGinley dark and broody as the local boy returned from Dublin to reactivate his roots. You suddenly see Molloy here as an unwitting link between Synge and Brian Friel. I was particularly glad to have met, after hearing excellent reports, the Druid Company. They are *obviously a force* to be reckoned with in the contemporary Irish theatre.

Also in Dublin, to less effect, were the Cork Theatre Company, with *The Man Who Stole From Adolf Hitler* by Tony Browne at the Mansion House. This was about the arrest and interrogation of a painter friend of Hitler immediately after the Anschluss. I was irrevocably disturbed, on visiting the lavatory just before the curtain up, to find myself supervised by two gestapo officers in full fig.

On a budget of only £82,000, the programme assembled by Michael Colgan is astonishingly ambitious. The Colletivo di Parma were a big success last week. This week sees a new Hugh Leonard play at the Olympia and a Gate Theatre production of Nell Dunn's *Steaming*. Mr Colgan's major bid for an unlikely hit, however, involved the direction of a resident company at the Project Arts Centre (bolstered by an excellent Abbey artist, Joan O'Hara) by Kazimierz Braun in a piece by his fellow Pole Tadeusz Rozewicz. The result of *The Old Woman Broods* was, alas, an incongruous embarrassment, a pretentious occasion rather similar to Yuri Lyubimov's *Crime and Punishment* in London. Actors wearing a brave smile while donning the clothes of an alien culture are always a trial. This exercise in a weird café and, later, on a devastated battlefield, made no sense at all.

Audiences have been remarkably good all through the Festival, not least at lunchtime shows. I stood in a brimming hall, the Focus Theatre, for Miriam Gallagher's *Fancy Footwork* performed by inmates of Mountjoy Prison. A simple, even banal, boxing play was quite transformed by the honest, unfussed endeavour of the actors.

MICHAEL COVENEY

Pollini/Festival Hall

Andrew Clements

Maurizio Pollini's appearances on the South Bank are regular, more regular perhaps than those of any other pianist of comparable stature. Each season his repertory expands slowly; at the Festival Hall on Friday he introduced to London his view of the Diabelli Variations and prefaced it with his more familiar Schubert.

More familiar only in the sense that Pollini has played both the A minor sonata D.784 and the Wanderer Fantasy here before (and recorded the latter), for his playing has gained in amplitude since then to the extent that both works seemed distinctly different. The Pollini of the early 1970s would never have given the opening pages of the sonata the amount of pedalled richness he allowed on this occasion, reducing its stark contrasts, nor phrased its Andante with such unforced naturalness.

Technical marvels still abound, not least the effortless *purling* of *pianissimo phrases* in the finale of the sonata and the Adagio section of the fantasy. The Wanderer he still presents as an overwhelming *tour de force*, with blisteringly fast final fugue, but there is more air now. The series of *heavy chords* that closes the first Allegro was delivered before with crisp despatch; each is dwelt on a little longer now, given a fraction more weight, and the effect is more satisfyingly conclusive.

If Pollini's approach to Schubert makes a refreshing change from the self-conscious profundities of some of his peers—no names, no complaining letters—his Beethoven reinforced the point. It was in truth an account of the variations of unadorned faithfulness for two-thirds of the work, throwing up examples of imperious control throughout and savouring some of Beethoven's more daring suspensions, but short on wit and exuberance. Yet the fughetta *of variation 24 initiated an ever* deepening response that culminated in a transfiguring account of the trio of C minor variations and the immensely muscular fugue, while saving some perfectly judged chording for the final minuet.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

Sept 30–Oct 6

PARIS

Bella Davidovich, piano, Dmitry Sitkovetski, violin: Mendelssohn, Grieg, Mozart, Ravel (Mon) Gaveau (5632030).

Dame Kiri Te Kanawa accompanied by Robert Sutherland (Mon) Théâtre de l'Athénée (7426727).

Udo Reinemann, baritone, Noel Lee, piano: Schubert's "Schöne Müllerin" (Tue) Gaveau (5632030).

English Chamber Orchestra with Murray Perahia, piano: Mozart, Bach (Tue) Salle Pleyel (5638873).

Arto Noras, cello, Bruno Rigutto, piano (Wed) Gaveau (5632030).

Orchestre de Paris conducted by Sylvain Cambreling, Jane Manning, soprano: Webern, Schönberg (Wed) Salle Pleyel (5638873).

Radio-France: Orchestre National de France conducted by Serge Baudo, Pierre Reach, piano: V. D'Indy, R. Strauss (Wed) Théâtre des Champs Elysées (7234777).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Larry Newland conducting Hakan Hagegard, baritone. Copland, Mahler, Dvorak (Thur) Lincoln Center (8742424).

Carnegie Hall: Camerata Bern in a North American debut tour performs Monn, Haydn, Veress, Britten (Tue); Bamberg Symphony, Eugen Jochum conducting, All Bruckner programme (Thur). 2477459.

Musica Sacra: Five concerts in the ten-day "Basically Bach" Festival will feature Richard Westenburg conducting the Musica Sacra Orchestra and Chorus, with chamber works by Handel and Telemann, as well as Bach, performed by the group, including Anthony Newmann, harpsichord. Avery Fischer Hall and Central Presbyterian (64th & Park). (8743104).

Merkin Hall: Peter Katin piano recital. All-Chopin programme (Mon); Zina Schiff violin recital. Copland, Kirchner, Cowell, Creston Block, Gershwin, Kroll (Tue); the Verdehr Trio. Walter Verdehr violin, Elsa Ludewig-Verdehr clarinet, Gary Kirkpatrick piano. Vanhall, Hutcheson, Hoover, Bartok (Wed). 67th W of Broadway (3628718).

LONDON

Philharmonia Orchestra, conductor Jacek Kasprzyk with John Lill, piano, Margaret Marshall, soprano: Beethoven Piano Concerto No 5, Mahler Symphony No 4. Festival Hall (Mon) (9283641).

Ileana Cotrubas, soprano, Julia Hamari, mezzo-soprano: Monteverdi, Scarlatti, Mozart, Schumann, Mendelssohn, Granados and Dvorak. Elizabeth Hall (Mon) (9283641).

Royal Philharmonic Orchestra, conductor Antal Dorati, Lynn Harrell cello: an all-Dvorak programme. Festival Hall (Tue) (9283641).

London Sinfonietta: Witold Lutoslawski conducting a programme of his own music, including a premiere. Elizabeth Hall (Tue) (9283641).

A Royal Philharmonic Society concert with the BBC Symphony Orchestra, Singers and Chorus conducted by Norman del Mar with pianist Shura Cherkassy: Bax, Liszt, Ravel. Festival Hall (Wed) (9283641).

Norwegian Chamber Orchestra with Iona Brown, conductor/soloist: Grieg, Barber, Mozart, Vivaldi. Barbican Hall (Wed) (6388891).

London Concert Orchestra, conductor Marcus Dods, Crispian Steele-Perkins, trumpet: Handel, Haydn Trumpet Concerto, Schubert, Mendelssohn. Barbican Hall (Thu) (6388891).

Janis Vakarelis, piano: new work by Theodore Antoniou; Brahms, Beethoven, Schubert, Mussorgsky. Elizabeth Hall (Thu) (9283641).

WEST GERMANY

Hamburg Opera: Lieder recital with Kiri Te Kanawa, accompanied at the piano by Roger Vignoles: Handel, Mozart, Strauss and Bridge. (Thur).

Berlin Philharmonie: This year's 33rd Berlin Festival runs from Sept 1 to Oct 2. The last week of performances opens with an evening dedicated to Olivier Messiaën. Soloists are Siegfried Palm, Saschko Gawriloff, Hans Deinzer and Aloys Kontarsky (Sun). The Berlin Philharmonic Orchestra conducted by Jesus Lopez Cobos presents Alban Berg and Liszt (Tues, Wed).

Munich Kongressaal Des Deutschen Museums: Guest appearance of the Czech Philharmonic Orchestra. Conducted by Vaclav Neumann (Sun).

F.T. CROSSWORD PUZZLE No. 5,232

ACROSS

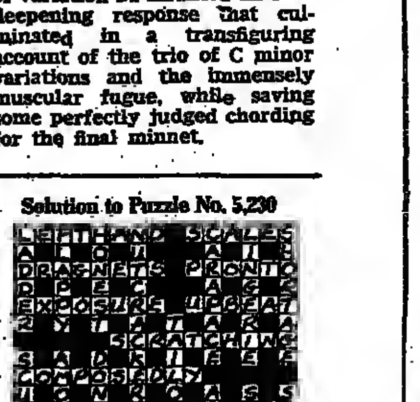
1 It is inclined to keep out of the way when troubles intervene (8)
5 European may be French (6)
9 Defeat makes no difference to mum or dad (8)
10 He wants a good deal (6)
12 It's the custom to give us time (5)
13 Free of charge (9)
14 Reform needed by shopkeepers (6)
16 It was in form when young (7)
19 Information going to one boy is applicable to the whole class (7)
21 Cavalryman turning back without thinking about us (6)
23 Nobody pays an egg producer around the end of October (9)
25 Nothing among the new rich can be got for a song (5)
26 Martin goes astray in Ireland (6)
27 Expressing willingness to make some sacrifice (8)
28 The force of emphasis (6)
29 It's OK, there's no-one left (3, 5)

DOWN

1 Ascent is difficult for the poor (4-2)
2 He struggles with valiant sea monster (9)
3 A good time going through Berlin (5)
4 Sharpshooter employed in the rigging (4-3)
6 Resolve us in another way (9)
7 Country taking in reciprocal aid (5)
8 Yields from TV shares (8)
11 Hard work one gets very much upset about (4)
15 Costa Rican doing without a form of drugs (9)
17 Anger is no use for clear use of the brain (9)
18 Cracked intellectuals? (3-5)
20 A short cut for sailors (4)
21 A troublesome quantity though not beyond your grasp (7)
22 Such a pupil is likely to shine (6)
24 Alert for a change in the future (5)
25 Establish one's innocence but get bound over? (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Solution to Puzzle No. 5,230



FINANCIAL TIMES
Monday October 3 1983

Gordon Cramb on Wall Street

Bubble, toil and trouble

COKE moved out of wine and into Latin difficulties. Pepsi joined the switch to a better-tasting but costly sweetener and thereby faced up to a margins squeeze. Dr Pepper, which trails a poor third in the U.S. soft drinks industry, said it was open to offers. The moves all came last month and have been read on Wall Street as a sign that the companies' earnings growth may be pausing before pace is regained.

By no means all the effervescence has gone from the outlook, however, and the decision by Coca-Cola last week to sell its Wine Spectrum vineyard unit to Seagram for $200m is regarded as positive.

Wine making in the U.S., a capital intensive business at the best of times, is under constant pressure from European imports and rates of return are irregular.

Stock in Coca-Cola, which closed on Friday at $50⅞ had dipped slightly on the loss of what was still a possibly better than average growth contributor, but the cash should put a few cents per share on the 1983 result.

Securities House analysts of the beverage industry are forecasting earnings around $4.14 per share for Coke this year and $4.80 in 1984, up from the 1982 outcome of $3.95. The stock price compares with a 52-week high of $57⅞ and low of $40.

Coke took a more severe thumping a fortnight earlier, shedding some 7 per cent when it announced that Latin America's economic woes were hampering its extensive operations there, forcing it to revise downward its own undisclosed projections for the year's earnings.

In July, PepsiCo reported much the same strains on its first-half results, down 28 per cent, with devaluations in Mexico and Venezuela exacerbating the ill effects of an already strong dollar.

The course of the dollar over the next year will make a big difference to the earnings forecasts, with many analysts banking on a decline in the currency of between 3 and 8 per cent. Foreign sales have been bringing in up to half of Coke's profits, but Pepsi had a troubled time abroad last year as accounting irregularities came to light.

PepsiCo turned in 1982 earnings of $3.23 per share, excluding such non-recurring writedowns, and is tipped this year to emerge flat and at between $3.50 and $4 next year. Its stock ended the week at $33⅜ against a high over the past year of $50 and low of $32⅞.

In the shift to diet products, which now account for some 15 per cent of the U.S. market, much is being made of the selling potential for the new Aspartame sweetener now regulatory clearance has been granted. Much of the growth, however, has come from consumers switching from the companies' own syrup-based drinks.

That combined with higher costs of purchase – Aspartame, under the band name Nutra-Sweet, is a proprietary product of drug maker G. D. Searle – would in the short term tend to cancel out the earnings benefits of the shift to diet drinks.

Margins on saccharin-based products have been running at twice those for the regular sugared drinks. Aspartame, although more expensive, is expected to maintain that ratio in the long term if the improved taste prompts larger volume sales on an expanded market share for the diet side.

The coming year however, will require more in the way of marketing and some plant readjustments, thus limiting 1984 profit growth.

Sugar remains subject to the vagaries of world commodity values, and the companies would be glad to achieve a reduced exposure to that unknown.

The other main consideration believed to be behind the soft drink makers' decision to opt for Aspartame is health, both in the form of possible regulatory action against saccharin now an alternative exists, and as represented by a raised national consciousness of dietary dangers in sugar itself and in the caffeine which many established brands contain.

Competition in the sugar-free area is intensifying, mainly to the majors' benefit.

Dr Pepper's diet products have suffered at the hands of Coke. When the former's first-half results were sliced almost in half, Wall Street's beverage watchers went about adjusting their full-year forecasts in some surprise.

These are now put at 85 cents this year, with a second-half revival following a hot summer still taking it well beyond last year's 58 cents, which was drained somewhat by the $143.8m purchase of Canada Dry. Next year could bring 90 cents to $1.10 – if the Texas-based company is still independent and intact. The stock, standing at $16½ against a year high of $17⅛ and low of $11¾, seems to be selling more on takeover possibilities than on fundamentals.

NORWEGIAN PRICES ATTACKED

Statoil angers buyers

BY RAY DAFTER, ENERGY EDITOR, IN LONDON

LEADING EUROPEAN gas utilities are engaged in a bitter pricing row with Statoil, the Norwegian state oil corporation, over future supplies of North Sea natural gas.

The utilities have formed themselves into two groups to compete for large-scale supplies of gas from the big Norwegian Sleipner field – British Gas Corporation on the one hand and a consortium comprising Ruhrgas (West Germany), Gasunie (Netherlands), Distrigaz (Belgium) and Gaz de France on the other. Neither group is prepared to pay the price being sought by Statoil.

In its bid to reach an early settlement, Statoil has now set an effective deadline of the end of the year for completion of negotiations. Officials said in London that if the negotiations were prolonged Statoil would lose the opportunity of obtaining parliamentary consent for the Sleipner development next summer.

Statoil maintains that prices now being offered are still some way below the level which would justify the commercial development of the field. The corporation estimates that it will cost between NKr 30bn and NKr 40bn ($4.05bn to $5.4bn) to exploit the field, which is capable of producing natural gas at a rate of over 1bn cubic feet a day.

It is thought that Statoil is seeking a price which would yield a rate of return similar to the deal already agreed with the continental European consortium for supplies of Statfjord gas. The benchmark price for Statfjord was set at about $5.50 a million BTU (British thermal units) or, at current exchange rates, the equivalent of 36p (54 U.S. cents) a therm. As a yardstick, British Gas is currently agreeing fresh contracts in the UK sector of the North Sea at about 20p to 23p a therm, while prices of between 5p and 10p a therm are still being paid to some UK producers under long-standing agreements.

Within Statoil, it was being hinted yesterday that an acceptable price for Sleipner could be substantially less than $5.50 per million BTU. It was pointed out in the oil industry that Statfjord, in the northern part of the North Sea, was further from either the UK or continental European markets than Sleipner and, as a result, transport costs were higher. Furthermore, the Statfjord deal was concluded in 1981 at a time when the real price of competing oil was higher than at present and when gas utilities had a more pessimistic view about their future supply and demand balance.

Even so, it is known that British Gas in particular is keen to acquire the Sleipner gas. The field is big enough to yield the equivalent of well over one fifth of all current supplies to the gas corporation.

British Gas needs a major new source of supplies to ensure that the UK does not run short of gas in the late 1980s and 1990s. Furthermore, a new pipeline from Sleipner to Britain's east coast could also act as a trunk line for the collection of gas from other undeveloped fields along the route. Unlike continental gas companies, which are linked to pipeline supplies from Soviet and North African fields, British Gas has no direct pipeline links other than those to North Sea fields.

Oil supply threat, Page 6

US affirms support for Zia as riots continue

By Mohammed Aftab in Islamabad

THE U.S. reaffirmed its support for Pakistan's martial law regime yesterday as unrest continued unabated in the troubled province of Sind during the second round of controversial local elections.

Seven bombs exploded throughout the province underlining the continuing opposition to President Zia ul-Haq's regime. This followed Thursday's clashes – the worst since the protests began last August – when more than 25 people were killed in fighting between troops and protestors. At least one person died in yesterday's protests.

In the capital, Islamabad, Mr Caspar Weinberger, the U.S. Defence Secretary, reaffirmed his country's commitment to supply Pakistan with sophisticated weapons partly to counter the Soviet presence in neighbouring Afghanistan and partly to match the Indian arms build-up.

Pakistan's leaders have been worried over delays in delivery of F-16 fighter aircraft and other weapons promised by the U.S. under the $3.2bn six year aid agreement.

Mr Weinberger assured President Zia that the U.S. would do everything it could to strengthen Pakistan's defences. He added that the Reagan Administration was "absolutely committed to getting Pakistan the full amount of aid."

The aid programme includes supplying the Pakistani air force with 40 F-16s, one of America's most advanced fighters, as well as 100 M-48 tanks and 155mm and 8-inch artillery pieces.

Mr Weinberger told reporters that the U.S. did not plan any new aid to Pakistan, but said: "It is important that they remain strong economically and militarily."

A total of six F-16s have already been delivered, as have all the tanks and part of the artillery.

The U.S. Defence Secretary – at the end of a three-day trip – hinted, however, that Washington wanted to see changes in martial law. Asked about U.S. support for the military Government, Mr Weinberger told reporters: "We always have to look at alternatives. We can help a lot of governments pursue policies in the human rights area that are close to our ideals."

THE LEX COLUMN

Sun sinks in the East

Little more than a year ago, Merrill Lynch was hailing its participation, with Paribas and Mr Fung King Hey, in the banking and securities operations of Sun Hung Kai as an important step forward in its march towards becoming an integrated, worldwide financial services group.

After stepping in yesterday with Paribas to take equity control of SHK and so pre-empt an anticipated run on the banking division's deposits, it may have cause to review that whole strategy. Merrill paid HK$500m (U.S.$616,903) for its initial minority stake last year and over the past few months has contributed heavily to urgent funding programmes – totalling HK$660m – for SHK offshoots.

The bank's net worth was reported as HK$436m to the year-end 1982 balance sheet but that figure included a substantial, and now very optimistic, valuation of the head office building. Moreover, the inclusion in the August funding package of HK$102.5m for specific provisions gave some idea of the bank's bad debt experience. The securities operation, too, has been suffering as equity trading has been dominated by overseas investors which have stronger links with foreign brokers.

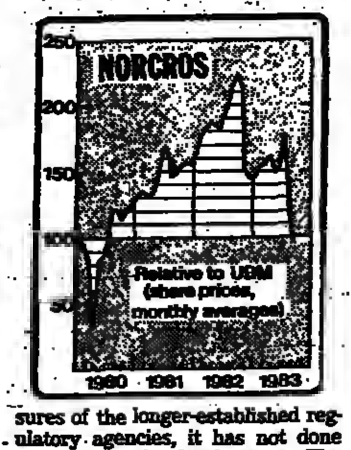
At least Merrill and Paribas now have management control, even if at enormous cost. But whether they are able to make anything of a bank which has suffered two serious crises of confidence in five years must be open to doubt.

City regulation

The Council for the Securities Industry (CSI) feels piqued at being conspicuously excluded from deliberations over the future of the London Stock Exchange, but it will not attract much sympathy elsewhere in the City of London. After five years of uncertain existence, the CSI has failed to find a role for itself within the City's network of self-regulatory institutions.

That is by no means wholly the CSI's fault. Rather like Equity Capital for Industry a few years earlier, the CSI was invented as much to deflect outside criticism of the City as to meet an obvious need. It has not been helped by the Bank of England, which set the body up to act as an overall regulatory umbrella and has increasingly abrogated that role to itself.

Admittedly, even when the CSI has managed to stake out territory outside the jealously guarded enclo-



sures of the longer-established regulatory agencies, it has not done much of a job of cultivation. The body's dawn raid rules, introduced early last year, were roundly criticised by all and sundry for imposing unduly harsh restrictions on acquisitive companies. In retrospect, that particular job might have been done better by the Take-over Panel.

The CSI has done some useful work, for example on licensed dealers, and is not wholly without its adherents in the City. But if it is not to be involved in so central an issue as stock exchange reform, it is difficult to imagine the body finding an effective voice in the future.

Its decision last week to establish a committee on stock exchange matters looked a belated attempt to salvage some of its reputation from the wreckage. The Bank of England, meanwhile, issued a note on the new stock exchange monitoring arrangements which failed to mention the CSI, except in a disingenuous footnote stating solemnly that the arrangements were not intended "to detract from the interests of the CSI." Exactly what are the interests of the CSI was a question left conspicuously unanswered.

Ironically, the one hope of salvation for the CSI is Professor Jim Gower, who was far from complimentary about the organisation in his review of investor protection early last year. His final report, due some time after Christmas, may include a recommendation that legislation should be introduced vesting an overall regulatory body with statutory powers.

If the CSI were to play that role, or anything approaching it, radical changes in its structure would be needed. The City simply cannot be regulated by an institution sporting a part-time chairman and a director-general appointed on a "Buggin's turn" basis from among the merchant banks, who must also take responsibility for the overworked Take-over Panel.

As London's financial markets become more integrated, the case for some overall regulating agency grows more compelling. But the Bank of England's position – at Lloyd's and the stock exchange, as well as in banking – is now so entrenched that it will be difficult to dislodge. And running a statutory authority, reporting presumably to the Department of Trade and Industy, in tandem with the Bank would be both inconsistent and impractical. Before too long, the Government will presumably have to decide which it wants.

Norcros/UBM

Shareholders in UBM who were wondering how to tackle the increased and final offer from Norcros – which closes tomorrow – will not have been much the wiser for the advice contained in UBM's second defence document. UBM's profit forecast of £10m pre-tax for the year to next February had been widely anticipated. And there was no firm guidance as to performance further on.

For all that UBM's interim figures for the six months to August reinforce its image as a company starting to feel the benefits of determined management, with pre-tax profits nine times higher than last year at £4.8m, it is hard to see the shares standing anything like so high without a bid.

Admittedly, the case for bringing in Norcros to have a go at managing UBM is scarcely stronger than that for leaving the present UBM team to carry on with the job they started 15 months ago. UBM is not in need of rescue; break-even levels are lower than they were in 1980, providing reason to expect greater stability of earnings in the next recession, and capital gearing has come down to a mere 12 per cent.

Nor are the attractions of Norcros paper decisive. Despite a steady advance in profits, the shares have never been highly rated, while it has only taken the present takeover campaign to undo years of strong performance relative to UBM.

Success in this bid might cause a marginal re-rating of Norcros equity by placing it more squarely in the building materials sector but, unless a gap opens up today between the value of the cash and equity offer, there is probably little to be lost – except perhaps to the taxman – in taking advantage of a surprisingly generous Norcros cash offer.

Bank of England 'lifeboat' in £160m syndicated loan

BY RAY MAUGHAN IN LONDON

THE BANK of England "lifeboat," the support group set up around the end of 1973 to finance the casualties of the secondary banking slump that year, has received £160m ($238m) from a subsidiary of First National Finance Corporation (FNFC).

First National Securities, the finance house division of FNFC, has signed what is thought to be the largest syndicated sterling loan ever arranged for a UK company. The loan will be used to repay the facilities made available by the Bank of England and the English and Scottish clearing banks as part of the lifeboat support operation.

It is estimated that the lifeboat provided around £1bn of support finance at the height of the secondary banking crisis 10 years ago, but FNFC is the last remaining casualty still dependent on support-group funds.

Its other activities are still thought to owe the support group about £90m. The remnants of FNFC's original lending portfolio and its residential activities are understood to have a combined net deficiency on assets of some £30m.

The FNS, the instalment credit arm, has net assets of about £39m at present. Its new syndicated loan comprises a £40m acceptance credit for 18 months and a £120m loan for four years. As a result, it will no longer be reliant on support group funding and its debts will match more closely the maturity of its loan book.

The syndicated facility has been arranged by Kleinwort Benson, FNFC's financial adviser and the London branch of Chase Manhattan, which has been associated with FNS for many years.

A total of 21 other banks have been involved and the agent banks are Kleinwort for the acceptance tranche and Chase for the medium-term facility.

FNFC is now concentrating on a programme geared towards further debt reduction and a refinancing that will take the entire group out of the lifeboat.

Vauxhall workers may picket ports against Opel products

BY DAVID GOODHART IN LONDON

FLYING pickets are expected today at Hartlepool, Sheerness and Bristol docks – the three main entry points for Vauxhall Opel imports – following the breakdown of attempts to call off the pay strike by most of Vauxhall's 14,500 manual workers.

Vauxhall slightly improved its pay offer on Saturday by making the 7.75 per cent rise payable over 12 instead of 14 months. With an extra day's holiday for nearly half the workforce and a small improvement in the pension scheme the company says the offer is worth about 8 per cent, a figure that many union officials had thought sufficient to avoid a strike.

The unions argued on Saturday for holiday entitlement for blue collar workers to be brought into line with white collar workers; for the eradication of the bottom grade and for any hours reduction granted by the Engineering Employers Federation to apply at Vauxhall.

The strike at the company's three plants – Luton, Dunstable and Ellesmere Port – began officially on Friday evening for all but 1,000 engineering workers at Dunstable who voted in a ballot to accept the earlier offer. The decision to continue will go before mass meetings at the three plants today and tomorrow.

● The leadership of the National Union of Mineworkers has reversed its previous policy of providing a militant opposition to the state-run National Coal Board's plans and has left to the 180,000 mineworkers the decision on whether to accept the Board's offer of a 5.2 per cent increase on basic pay, writes John Lloyd, Industrial Editor.

The union's national executive is to transmit the offer to its branches without any recommendation and its future response will be largely determined by the reaction of the rank and file.

● The executive council of the General Municipal and Boilermakers' Union has approved in principle a ballot on industrial action by workers at Dunlop, in protest against the company's decision to sell its tyre-making plants to the Japanese company Sumitomo Rubber.

Vauxhall's new Cavalier, Page 6

Support plan for HK bank

Continued from Page 1

ny, while reducing Mr Fung's holding from 40 per cent to 28.8 per cent.

As well as obtaining equity control, Merrill and Paribas will now be "assuming the responsibility of directing the management of the Sun Hung Kai group," according to yesterday's statement. Mr Fung will, however, remain as Sun Hung Kai's executive chairman.

Paribas has been a shareholder in the group since 1978. Merrill bought into the bank and into its sister securities company in May 1982. The bank and securities firms were merged last month under the new holding company, Sun Hung Kai and Company.

Yesterday's package for the bank is one of a series of moves taken to strengthen various Sun Hung Kai subsidiaries over the past year. Mr Fung, Merrill and Paribas have already given guarantees of up to HK$282.5m against delinquencies on the bank's HK$2.7bn loan book. The partners have also provided HK$380m in long-term loans for an overstretched property developer called Sun King Fung, once owned by SHK Securities and now owned by Mr Fung.

● Macao officials met over the weekend to consider the affairs of Banco do Pacifico, a small local bank apparently affected by the inability of Hong Kong's Hang Lung Bank to meet its obligations before Wednesday's Hong Kong Government takeover.

U.S. labour backs Mondale

Continued from Page 1

Even before the decision was taken some labour leaders were warning that if Mr Mondale does not emerge from next year's round of primary elections as the favourite for the Democratic nomination, labour's bid for more political influence could backfire.

The decision by union leaders, which has to be ratified by the full AFL-CIO convention on Wednesday, is more than a psychological boost for Mr Mondale, however. Although organised labour's political influence has waned over the past decade it still has a formidable election machine at its disposal.

Thatcher seeks Reagan support over Belize

BY STEWART FLEMING IN WASHINGTON

THE BRITISH Government is seeking U.S. support for a political settlement of Guatemala's claims on Belize, the Central American enclave where a British garrison is still posted even though the country is independent.

In her meetings with President Ronald Reagan in Washington last week Mrs Margaret Thatcher, the British Prime Minister, is understood to have emphasised that the UK does not want to keep the garrison there indefinitely, although she did not put any timetable forward for its withdrawal.

Guatemala has territorial claims on Belize and it is feared that it might be tempted to step up pressure following a British withdrawal. The issue is a delicate one for President Reagan in view of the hostilities in Central America and the problems the administration is having in following the policies it favours in its efforts to try and restore stability. The Reagan Administration would be reluctant to see yet another conflict in the region.

The British Government may be hoping therefore to enlist U.S. support for a political solution on the status of Belize which would allow the troops to withdraw.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	23	73	Dubrovnik	S	21	70	Malaga	S	25	77	Salzburg	C	14	57
Algeciras	S	25	77	Faro	S	27	81	Malta	C	24	75	Seoul	C	23	73
Algiers	F	26	79	Florence	S	25	77	Manila	C	31	88	Singapore	S	32	90
Amsterdam	C	17	63	Frankfurt	C	15	59	Miami	C	28	83	Stockholm	F	10	50
Athens	F	19	66	Funchal	F	23	73	Milan	F	18	64	Strasbourg	S	18	65
Bahrain	S	38	100	Geneva	C	19	66	Moscow	C	6	43	Sydney	S	20	68
Bangkok	[illegible]	[illegible]	[illegible]	Gibraltar	[illegible]	[illegible]	[illegible]	Munich	[illegible]	[illegible]	[illegible]	Tangier	[illegible]	[illegible]	[illegible]
Barcelona	[illegible]	[illegible]	[illegible]	Guernsey	[illegible]	[illegible]	[illegible]	Nairobi	[illegible]	[illegible]	[illegible]	Tel Aviv	[illegible]	[illegible]	[illegible]
Beirut	[illegible]	[illegible]	[illegible]	Helsinki	[illegible]	[illegible]	[illegible]	Naples	[illegible]	[illegible]	[illegible]	Tenerife	[illegible]	[illegible]	[illegible]
Belgrade	[illegible]	[illegible]	[illegible]	H. Kong	[illegible]	[illegible]	[illegible]	Nassau	[illegible]	[illegible]	[illegible]	Tokyo	[illegible]	[illegible]	[illegible]
Berlin	[illegible]	[illegible]	[illegible]	Innsbruck	[illegible]	[illegible]	[illegible]	Newcastle	[illegible]	[illegible]	[illegible]	Toronto	[illegible]	[illegible]	[illegible]
Biarritz	[illegible]	[illegible]	[illegible]	Inverness	[illegible]	[illegible]	[illegible]	New York	[illegible]	[illegible]	[illegible]	Tunis	[illegible]	[illegible]	[illegible]
Blackpool	[illegible]	[illegible]	[illegible]	I.o.Man	[illegible]	[illegible]	[illegible]	Nice	[illegible]	[illegible]	[illegible]	Valencia	[illegible]	[illegible]	[illegible]
Bordeaux	[illegible]	[illegible]	[illegible]	Istanbul	[illegible]	[illegible]	[illegible]	Oporto	[illegible]	[illegible]	[illegible]	Venice	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	Jersey	[illegible]	[illegible]	[illegible]	Oslo	[illegible]	[illegible]	[illegible]	Vienna	[illegible]	[illegible]	[illegible]
Budapest	[illegible]	[illegible]	[illegible]	Jo'burg	[illegible]	[illegible]	[illegible]	Paris	[illegible]	[illegible]	[illegible]	Warsaw	[illegible]	[illegible]	[illegible]
B. Aires	[illegible]	[illegible]	[illegible]	Las Palmas	[illegible]	[illegible]	[illegible]	Perth	[illegible]	[illegible]	[illegible]	Zurich	[illegible]	[illegible]	[illegible]
Cairo	[illegible]	[illegible]	[illegible]	Lisbon	[illegible]	[illegible]	[illegible]	Prague	[illegible]	[illegible]	[illegible]				
Cape Town	[illegible]	[illegible]	[illegible]	Locarno	[illegible]	[illegible]	[illegible]	Reykjavik	[illegible]	[illegible]	[illegible]				
Caracas	[illegible]	[illegible]	[illegible]	London	[illegible]	[illegible]	[illegible]	Rhodes	[illegible]	[illegible]	[illegible]				
Casablanca	[illegible]	[illegible]	[illegible]	Los Angeles	[illegible]	[illegible]	[illegible]	Rio de J'o	[illegible]	[illegible]	[illegible]				
Copenhagen	[illegible]	[illegible]	[illegible]	Luxembourg	[illegible]	[illegible]	[illegible]	Rome	[illegible]	[illegible]	[illegible]				
Corfu	[illegible]	[illegible]	[illegible]	Madrid	[illegible]	[illegible]	[illegible]								
Dublin	[illegible]	[illegible]	[illegible]	Majorca	[illegible]	[illegible]	[illegible]								

Readings at mid-day yesterday

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Kinnock new leader

Continued from Page 1

Mr Kinnock will this week try to set a new direction, both in remarks at a series of fringe meetings and in a major conference speech on Thursday. He will underline this new approach both via appointments to his own private office and indications about a shake-up in the party organisation.

On policy he wants to maintain maximum room for manoeuvre on details while stressing the need for a new presentation to win back the voters which Labour has lost at the past two general elections.

Last night, he immediately issued a statement setting his agenda for action. He said that Labour members wanted the party to deepen and strengthen its links with local communities and wanted to win power to translate its ideals into action.

Mr Kinnock said he wanted to wage a campaign on three fronts:

● Halting the destruction by the Conservative Government of Britain's industrial base and opposing the erosion of the welfare state.

● Promoting the policies for reconstruction which the party has developed.

● Showing that in building a productive economy "we are determined to create an equitable and secure society."

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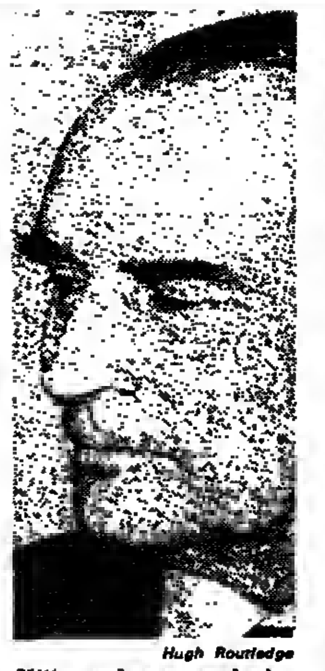
Foreign Affairs

The case of the missing trump card

By Ian Davidson

Ashley Ashwood

Thatcher: determined



Hugh Routledge

Mitterrand: new emphasis

AFTER some elaborate marking out of national positions during and since the summer holidays, the negotiations on the future of the European Community get into full swing with a four-day, mega-Ministerial meeting in Athens next week. Now it is pretty easy to predict that these negotiations will not glide smoothly to an amiable conclusion in time for the European Summit in early December: there is scarcely time to manage an agenda so large and so radical. But there may also be a question whether the Community's problems can be settled at all, without an agenda which is even larger and more radical.

As it stands, the agenda consists of five distinct but closely related issues. First, there is the question of the future financing of the Community budget. Next year the EEC will run out of available resources: if these resources are to be increased — and the British Government for one has yet to concede that they should be—a new financial treaty must be negotiated by the member states and ratified by national parliaments.

Second, there is the long-delayed admission of Spain and Portugal to full membership. On political grounds, all 10 member states are in favour: but this enlargement will impose economic costs, either through competition in Mediterranean farm produce, or in expenditure from the Community budget, or more probably both. So that's the first tangle.

Third and fourth, there is the perennial British complaint against unfair treatment under the existing budgetary rules, and the demand for strict controls to reduce the share of Community spending which goes on agriculture (currently about two-thirds). This is tangle number two. For if Britain contributes less, others must contribute more; and slowing down the rate of growth of farm spending, while admitting Spain and Portugal to the benefits of the farm policy, is not something that can be done by mirrors.

Finally (as if this were not enough), the Ten are supposed to lay down guidelines for new Community policies, among other things on research, technology and industrial competitiveness.

Of the Ten, the British Government is almost by definition in the most awkward negotiating position, for its demands would impose budgetary burdens on, and provoke political protests in, the other member states. Objectively, Britain has an excellent case: the existing budgetary rules are starkly inequitable in their results, and the farm policy has become a waster of resources which is not just scandalous in an era of tight national budgets, but also wholly irrelevant to the central problems of Europe's economies.

But objectivity is not the name of the game in a Community haggle. The UK has some support from the Dutch, and less consistently from the Germans; but for the rest, Britain is merely demanding favours, without obviously offering anything in return. Too often on the continent Britain's approach to the glorious and selfless enterprise of European construction is stigmatised as that of an accountant or small shopkeeper.

Britain has, it is true, two negotiating weapons: the ticking of the clock, and the personality of Mrs Thatcher. Both of these are powerful, but they are of uncertain effect. In principle, the UK could simply dig in its heels on the question of increasing the Community financial resources, and wait for institutional bankruptcy to concentrate the minds of the other member states. In fact this is not the way the British Government is currently playing the game; but the other member states know that it could, and they also know that Mrs Thatcher is not merely not going to give up, but will be around to plague them for at least another four years. The prospect is daunting.

In theory, the other member states may believe that Mrs Thatcher has a less rigorous fall-back position, to which eventually she will retreat. If she were to get a sufficiently generous and permanent solution to the British budgetary problem, for example, she might all but abandon the attempt to put clamps on the extravagance of the farm policy, leaving the others to waste their money any way they want.

This might not be a bad negotiating strategy. It would gain maximum political advantage in the House of Commons, while provoking the minimum political stress in the rest of the Community; if Mrs Thatcher is as much a shopkeeper as she is cracked up to be, that could be her plan. Somehow I doubt it. Things may change, but my hunch is that Mrs Thatcher is almost as determined to attach powerful anchors to the farm policy as to get her money back, because in the long run that is the only way of freeing Community resources for spending in Britain.

To single out the British may seem unfair, but the ball is in their court

If Mrs Thatcher is demanding a change in the budgetary rules to suit Britain, she does not necessarily accept that there is any need to change the budgetary rules so as to increase the size of the budget: for her the problem is to control spending, not to increase revenue. She has conceded a readiness to talk about bigger Community revenues, but only if the Community first agrees to satisfy her demands on the British contribution and farm policy reform.

If these were the only cards in the pack, the game would undoubtedly be set up for the most almighty row in December, which would more likely get worse in the spring. The ticking clock is a worry for those member states which benefit from the budget; but it is not certain that the exhaustion of resources will hit the farm policy before it hits social and regional spending, from which Britain benefits. By itself, blocking an enlargement of the Community budget is such a blunt instrument that its only certain consequence would be an unprecedented frost between Britain and its partners.

Moreover, the need to get national parliamentary ratification of a new financial treaty cuts at least 11 ways. The House of Commons can block an increase in the Community's financial resources, if it is not accompanied by satisfaction of Britain's demands; but any of the other nine parliaments could block a deal which seemed grossly unfair to their national interests.

In other words, the criterion of equity, which has been so repeatedly argued by British negotiators on the subject of budgetary contributions, will be critical all round if this autumn's campaigning is not to end in disaster; and not just Mrs Thatcher's view of equity, but equity as perceived in all member countries. For if even one country faces total and uncompensated defeat, no deal done in Athens or Brussels will get far.

On the basis of a limited agenda of four items—the British rebate, farm reform, new Community finance, and Spain and Portugal—an outcome conferring equity all round is simply not to be had. If the Community wants to avoid stark victories and even starker defeats, it must enlarge the agenda so as to give all member states a bigger stake in Community co-operation, and a genuine prospect that short-term sacrifices now will be compensated by offsetting benefits later.

This, clearly, must be the function of the fifth chapter, new Community policies, and the point has been well seized by the British and French governments, both of which have tabled substantial papers on the areas where they see a need for further Community development.

There is no space for a detailed analysis of either of these papers, but a few points stand out. First, they both list a long catalogue of useful areas of action, with a fair degree of overlap: the French talk about industrial standards, public procurement, financial markets, infrastructure projects, the British about training, energy policy, liberalisation of transport and financial services, environment, and both talk of research, competition policy and joint ventures.

Second, the French paper is much more fervently market-oriented than one might have expected from the left-wing government of President Mitterrand which came to power two years ago. To be sure, the protectionist tic flickers a couple of times, but the reiterated thrust of the paper is that "the development of European industry can be effected only by the concerns themselves."

Third, the French paper is pitched high, as a *cri d'alarme* that the Community may be lost if it does not urgently take steps to catch up with the industrial competition from America and Japan, whereas the British paper is pitched low, as a cool catalogue.

Tha French histrionics may just be shrewd negotiating tactics; but they could imply that Paris now recognises that the common market is not coterminous with the farm policy.

The trouble is that both these papers cover such a vast range of issues, all of them individually complex, that it is hard to imagine that anything much could be got ready in time for the European Summit in December. Moreover, while many of the proposals deserve consideration, they do not, even collectively, give sufficient political promise of a better and more united future, so as to help the heavyweights get through their winter battle.

As if to counter "misconceptions" of Britain's position, Sir Michael Butler, UK ambassador to the EEC, last week lectured the Brussels press corps: the UK was not just interested in the budget issue, it was firmly committed to the Community, and had lots of proposals for making it work better. The problem does not lie in misconceptions, however, but in the fact that the cards on the table have not been complemented by any political trumps.

Devising political trumps is not that easy. Some would argue that circumstances call for, and would be propitious to, some intensification of co-operation in European defence. Others, that it is time to strengthen the Community institutions, with more majority voting in the Council and more powers for the European Parliament. At a more banal level, one can only note that the British paper says nothing worth reading about North Sea oil and gas, and nothing et all about Britain's attitude towards the European Monetary System.

It may seem unfair to single out the British, but the ball is in their court. If Mrs Thatcher wants to get her way without the most appalling risk of fragmentation and national retaliation, she will have to mobilise her imagination.

Lombard

Arguments on UK recovery

By Samuel Brittan

THERE IS now quite a chasm between the British Government view of the economic outlook and that of several outside forecasters. The Bank of England is somewhere in the middle of this chasm; and there are outside forecasters who are more optimistic than the Government itself; but they are less successful in capturing the headlines.

One source of disagreement is simply the erratic month-to-month and quarter-to-quarter nature of the key indicators, as well as the frequent revisions. If people persist in trying to produce events out of minor variations in indicators whose only value is in the trend over a considerable period, we are bound to get alternations of pessimism and optimism from month to month, week to week, and even day today.

There is no doubt that a recovery is taking place. In the two years from the first half of 1981 to the first half of 1983, real GDP grew at an annual average of 2 to 3 per cent, taking the average of different measures. This is well up to the post-war average and modest only because of the acceleration of productivity, which means growth has to persist at the top end of this range if unemployment is to level off.

There are signs that this may happen. If you disregard the monthly headlines you will see that the average monthly increase in unemployment fell from 25,000 to 30,000 at the beginning of this year to 5,000 in the third quarter. More important is the fact that registered vacancies are now rising by an average of 8,000 a month.

The CBI's understandable complaints about costs and competitiveness should not blind us to the fact that there has been a substantial positive balance of CBI survey respondents expecting a rise in output in every month from February to September.

The genuine disagreement is about the outlook for 1984. Many outside forecasters argue that the recovery is not sustainable and will peter out next year; a view that the Chancellor castigated in his IMF speech as "wrong on all counts."

One of the more thoughtful comments on this dispute comes from David Smith of the difficult-to-pronounce firm of W. de Broë. One reason he cites for forecasters' pessimism is that they have not taken on board the new revisions to the national income figures, which add nearly 1 per cent to the growth rate (or take 1 per cent off the decline rate) of the last four years; and this alters the historical pattern on which the forecasts are based.

A second and more interesting reason cited by David Smith is that Treasury advisers give far more weight to financial variables than conventional macro-economic models do. The latter, seeing that consumer spending has been supported by an unsustainable drop in the savings ratio and free personal credit expect economic activity to level off. The Treasury, by contrast, lays stress on the rise in profits, the forward cyclical indicators and the real rise in various measures of money and liquidity. The Chancellor accordingly looked forward to increased investment and "positive stock building."

A third factor, not mentioned by David Smith, is the improved outlook for the world economy. The extreme gloom emanating from the German-speaking world for so long has obscured the fact that recovery has started in Germany and Japan as well as the U.S. The London Business School has for the second time revised its world forecast upwards.

My own main worry is that the Chancellor, who used to be a well-known scourge of forecasts, is now putting too much stress upon them when they happen to be congenial. He may also be making the logical mistake of confusing the denial that satisfactory growth cannot take place without an official stimulus with the proposition that it will take place. (He surely does not need to be reminded of the distinction between contraries and contradictories.) Whenever I let loose against fatalistic pessimism, I am met with the response "So you think everything is going to be all right?" which by no means follows at all.

Letters to the Editor

The Green Belt and individual residents' rights

From Mr N. Downes

Sir,—Your article in the UK housebuilding supplement (September 28) highlighted the pressures now being put on Green Belt land. The need for making land available where it is in greatest demand will undoubtedly mean further swallowing up of the green buffer zones.

For the individual resident, living close by land which could well be redesignated, there are obvious implications. His environment, the value of his property, perhaps his whole immediate area could all be seriously affected, but what individual rights does he have as houseowner, ratepayer and voter?

If the local authority concedes planning permission, the resident does not have the right of appeal available to a developer. An applicant for planning permission has rights of appeal to the Secretary of State for the Environment, an individual directly affected by the granting of permission has no such rights.

In certain circumstances, a local planning authority can virtually give itself planning permission. Interested parties are allowed to have their views considered but an authority acting as prosecutor, judge, jury and executioner, can rely on achieving its own aims.

What if those aims are in direct opposition to the wishes of the vast majority of the people in the immediate area? What rights do they have collectively to challenge such a decision? The answer is none. What price democracy?

The issue is not a selfish one. The point is that, as your article says, certain local authorities are under considerable pressure. Their decisions will cause development which can never be undone. Those decisions should be capable of public scrutiny in a considered way by an independent body.

N. Downes.
25, Normandy Way, Fordingbridge, Hampshire.

Management contracting

From Mr J. Woods

Sir,—You had two articles on "Contracting" on September 26, one describing (did it?) "management contracting" and one exposing how unfair conditions of contract are imposed on sub-contractors ("'Scandal,' say sub-contractors").

There are at least two main problems in contracting. The first is that sub-contractors frequently don't understand that a contract includes both doing the work to specification and complying with the terms and conditions of contract.

The second is that clients and head contractors believe that "what they say, goes," without any reference to the contract. (Sub-contractors have come to believe this too.)

The effects are made worse when there is not enough work to go round, and sub-contractors are prepared to accept anything to stay in business.

James Woods.
40 Lakenheath Road, Halewood, Liverpool.

Not for the public use

From the Group Managing Director, Steetley.

Sir,—I read the other day that British Rail believes that its executive service will win back passengers who have deserted the railways in favour of air and road transport. I wonder. Let me recount a recent experience when I deserted the road for rail.

At Retford Station I inquired of the ticket inspector whether the train I was hoping to catch was on time: "I don't know," he said. It arrived 15 minutes late. I got on board and took my seat to be greeted by an announcement over the broadcast system, "This is your buffet car attendant, the buffet will be closing in 15 minutes." As the train takes an hour and 40 minutes from Retford to London, non-stop, it would be interesting to know what he was going to do for the other one hour twenty-five minutes after he closed his buffet. The train arrived in King's Cross 25 minutes late. I was 10 minutes late for my meeting in Baker Street.

On the return journey I was curtly directed to queue in the King's Cross Station concourse because the train was not ready. This was 20 minutes before departure and the train was standing at the platform. Five minutes before its due time of departure we were allowed on board and 10 minutes after its time of departure it left the station. It proceeded unhurriedly to Alexandra Park apparently to allow other trains leaving King's Cross to get ahead of it. It proceeded on its leisurely way and eventually a voice over the system announced that the buffet would be opening in 10 minutes time. The train arrived at Newark 35 minutes late.

A visit to the lavatory during the journey brought me up short—a notice on the door said, with blinding self-revelation: "Not for the public use."

There is one passenger who will not return until British Rail remembers that it is run for the benefit of its passengers, not its staff. And this, as we all know, is unlikely to happen as long as it remains nationalised.

A. L. Beard.
P.O. Box 6, Gateford Hill, Worksop, Notts.

The betting levy and racing

From the Senior Steward, The Jockey Club

Sir, — While sharing the concern expressed in your article "Government warned of tax loss on illegal bets" (August 30) that the present high level of betting duty is causing a rapid increase in illegal betting, the Jockey Club would like to correct the misleading impression given in this article that bookmakers "are having to charge 10 per cent" (tax), and that "the rest goes to the Horserace Betting Levy Board for ploughing back into racing." (I also note that the same error of fact appears in a further article of September 17 entitled "The battle for the leisure pound.")

When the Chancellor of the Exchequer increased general betting duty from 7½ per cent to 8 per cent in July 1981 (not in the 1982 budget) the majority of bookmakers in turn increased their deductions from winning bets from 9 per cent to 10 per cent.

Under the provisions of section 27 of the Betting, Gaming and Lotteries Act 1963 and the Horserace Betting Levy Acts 1969 and 1981, bookmakers have a statutory obligation to pay a levy, based on their annual turnover, to the Horserace Betting Levy Board. This levy currently averages 0.8 per cent although the major bookmakers pay 0.94 per cent.

In 1982-83 out of the £260m deducted from punters only some £19m was returned to the racing industry. If it were receiving the amount your articles imply there would not be the severe shortage of funds that racing is currently experiencing.

Manton.
42, Portman Square, W1.

A consensus on pay restraint

From the Treasurer, Leicester Liberal Party.

Sir,—Had your feature writer (September 20) been present at the annual meeting of Dunlop shareholders he would know that the difficulties encountered by Sir Campbell Fraser were due to the persistence of just two shareholders, one of whom was myself. He would also know that the issue in question was neither the massive losses of the company, nor its fallen share price, nor its passed dividend. It was the poor quality of the leadership and management of British industry so strikingly exemplified by the glaring contradiction between Sir Campbell's repeated exhortations as president of the Confederation of British Industry for pay restraint and the need to link pay to performance, and his example as chairman of Dunlop.

A consensus on the need for restraint on incomes is imperative if industry is to be able to invest with confidence that this investment will not be dissipated by acrimony and disruption over pay. How can such a consensus be achieved when the leaders of industry set such a poor example?

Amid the mounting losses and factory closures, and calls to the workforce for restraint at the negotiating table, the chairman accepts a salary increase of £13,000—twice the gross income of one of his employees. What kind of leadership is this?

It is surely time to be considering changes in company law to make directors more sensitive to the aspirations of their employees and more accountable to their shareholders. Is there not a case for giving employees, who contribute their labour, the right to vote for directors on an equitable basis with shareholders who contribute their savings? Is there not a case for shareholders approving the proposed remuneration of directors for the forthcoming year? And should not directors have to seek shareholder approval before accepting other paid employment?

Perhaps the last suggestion needs elaboration. It is my experience in the highly competitive field of scientific research that total commitment is a necessary precondition for significant achievements to be made. I am not surprised that Dunlop has weathered the economic storm so badly when its chairman divides his time between several unrelated companies and activities. A salary of over £80,000 may, I suppose, just conceivably be warranted for the leading role in a large enterprise but shareholders can surely expect in return a full-time commitment to it.

(Professor) Robert Pritchard.
8 Knighton Grange Road, Leicester.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Wall Street holds its breath ahead of FOMC meeting

THE Federal Reserve Board's policy-making Federal Open Market Committee (FOMC) meets tomorrow—and Wall Street is holding its breath.

Last week, amid end of quarter turmoil in the Fed funds markets, bond prices were going nowhere.

Faced with confusion over the level of the Fed funds rate—which traded as low as 8¼ per cent and as high as 11 per cent—and over the Fed's intentions, the buyers were staying on the sidelines.

As a result the Treasury long bond traded within a surprisingly narrow threequarters

U.S. INTEREST RATES (%)

	Week to Sept 30	Week to Sept 23
Fed funds wkly aver	9.04	9.48
Three-month CDs	9.78	9.82
Three-month T-bills	9.20	9.30
30-year Treas bond	11.49	11.54
AAA Utility	12.36	12.38
AA Industrial	12.25	12.25

Source: Salomon Bros (estimates). In the week ended September 21 M1 increased by $2.3bn to $517.8bn from a revised $516.5bn in the previous week.

of a point range, closing at 104 26-32 to yield 11.43 per cent, virtually unchanged on the week.

While short-term rates continued to drift slightly lower, the market's doldrums reflected the divergence of views on Wall Street about "the next move."

For this reason, among others, there will be even more interest than usual in the FOMC's deliberations.

The FOMC will be meeting against the background of a sharp slowdown in the rate of monetary growth over the past two months. Even with the expected $2.3bn increase in M1 announced on Friday, M1 and the broader aggregates, M2 and M3, all remain comfortably within target.

At the same time there are now growing signs of a slowdown in the pace of the economic recovery. Although the July leading economic indicators figure was revised sharply upwards, the 0.1 per cent decline in the August figure, also reported on Friday, was the first drop for a year.

Credit demand shows a mixed picture. Household and local government credit demand remain strong but estimates of Federal borrowing requirements have recently been cut dramatically and, as Morgan Stanley pointed out last week "the credit market activity of the non-financial corporate sector has been downright depressed."

If the FOMC needs it, there is also ample evidence, in the form of bankruptcy filings and the continuing problems of some of the less developed countries, of the desirability of a lower rate structure.

Even ahead of the FOMC meeting those on Wall Street who believe the Fed has already eased up slightly on the brakes, have been pointing to the recent softening in the fund's rate.

Most accept, however, that it would be dangerous to read anything into the Fed's open market activities last week—given the exceptionally strong seasonal pressures.

The bulls also took heart from the net borrowed reserves figure released on Friday. It showed a decline from $1.09bn to $113m in the latest week. The figure is often taken as an indication of how generous the Fed has been in supplying reserves. The lower the figure the more accommodative the Fed has been—but again the Fed may simply have been smoothing exceptional pressures.

Salomon's Dr Henry Kaufman believes that the FOMC may be so pleased with the way things are going—including market reaction—that the committee will vote tomorrow for no change.

The key test set by Dr Kaufman, together with many other Fed watchers and the markets, will be how the funds rate performs over the next few weeks.

This uncertainty may well continue to hamper the corporate bonds sector. Prices held firm last week but new issue volume showed only a marginal increase to $303m in straight debt.

Among the corporate offerings which were launched Xerox Credit Company sold $100m of two-year extendable notes priced to yield 10 per cent to the first due date.

Paul Taylor

Southern Pacific sells off Ticor in $271m buy-out

BY TERRY DODSWORTH IN NEW YORK

A GROUP of investors under the chairmanship of Mr Harold Geneen, former head of ITT, has agreed a $271.3m leveraged buyout of Ticor, a financial services subsidiary of Southern Pacific.

The buyout proposal follows last week's announcement that Southern Pacific is to merge with Santa Fe to form the country's third largest railway network in a deal valued at $5.2bn.

Ticor's Constellation Insurance division is being excluded from the agreement.

Investors in the deal include Associated Madison, a wholly owned subsidiary of American Can, Mr Geneen, Mr Rocco Siciliano, chairman of Ticor, and Mr Winston Morrow, president. They are to pay $240m in cash and $31.3m in 13.5 per cent subordinated promissory notes.

TC Holdings, the new company, is to finance the cash portion of the purchase through bank loans and the sale of $50m of 14 per cent preferred stock to Associated Madison. In addition some of Ticor's non-insurance assets, including the Ticor Print Network and the company's headquarters in Los Angeles, will be sold and the proceeds estimated at between $100m and $115m applied to repayment of some of the bank debt.

While the group led by Mr Geneen will initially wholly own the new company, Associated Madison will receive warrants to obtain two-thirds of the common stock and 50 per cent of the votes of the company for $2m. This option is exercisable at any time, and Associated Madison will also be allowed to acquire the remaining one third of the company at a price to be determined between 1987 and 1989.

The continuing operations of Ticor will include the U.S.'s largest commercial and residential title insurance operation and the second largest residential mortgage insurance business.

In two further management buyout proposals, Louisiana-Pacific is planning to sell a pulp mill to 450 employees at Ketchikan, Alaska, while Allis-Chalmers, the loss-making construction machinery manufacturer, have agreed to sell its precious components division in York-Pennsylvania to a group consisting of local investors and the division's management.

Earnings up sharply at North BH

By Lachlan Drummond in Sydney

NORTH BROKEN Hill Holdings, the mining, pulp and paper and investment group, almost doubled net earnings from A$17.3m to A$32.1m (U.S.$28.8m) in the year to June 30.

The results reflected a return to profits on its silver-lead-zinc mining operations from a pre-tax loss of A$10.9m in 1981-82 to a modest A$3.11m surplus, a stronger contribution from associates' equity accounted income of A$32.6m compared with A$27.7m pre-tax, and the inclusion of full results from Associated Pulp and Paper Mills for six months.

APPM was acquired for A$70m as from January 1, and though its annual net profits slumped in the same year from A$17.2m to A$9.3m, its overall contribution of A$8.5m for the year surpassed the previous year's 40 per cent equity share taken in by North BH as part owner of the forest group.

North BH, which also has 12 per cent of Alcoa of Australia and 17 per cent of the Dunlop Olympic industrial group, said the main boost to its associates' income for the year came from its one-third stake in EZ Industries, the zinc group (which in turn owns about a quarter of North BH).

A final dividend up from 3 cents to 5 cents takes the total from 6 cents to 8 cents.

Two Spanish banks merge

BY TOM BURNS IN MADRID

BANCO URQUIJO and Banco Union, both owned by Banco Hispano Americano, formally merged at the weekend to form Banco Urquijo-Union, which will rank eighth in Spain in customer deposit terms. The decision was taken at the weekend following extra-ordinary general meetings of the two banks.

According to the parent bank, Hispano Americano, Urquijo-Union will have a capital of Pta 23.3bn ($153.3m) at the end of this year, deposits of Pta 400bn and assets of Pta 850bn. Sr Alejandro Albert, Hispano Americano's chairman, said the new bank would have 175 branches and would aim to provide a specialised banking service for upper income groups. He said the merger was the "most far-reaching in the Spanish financial sector."

Hispano Americano bought Banco Union in April 1982 from the deposit guarantee fund and took a majority shareholding in Banco-Urquijo at the beginning of this year. In the past month Banco-Urquijo, one of the most prestigious names in Spanish banking, has been given a drastic streamlining by its new Hispano Americano owners. Urquijo's losses of Pta 1.61bn were covered by a transfer of reserves totalling Pta 1.63bn, and the bank's outstanding Pta 21bn reserves were set aside for the provision of doubtful debts.

Urquijo, once the premier Spanish industrial bank, has been a major casualty of industrial recession. Its rescue by Hispano Americano in February was seen as the high water mark of the Spanish banking crisis.

ENI reduces its operating losses

BY RUPERT CORNWELL IN ROME

ENI, the state owned Italian energy agency, yesterday reported a significant decline in its operating losses in the first half of this year, although exchange rate fluctuations weighed heavily on the overall losses registered by the group.

Operating losses in the first six months fell to L78bn ($49m) from L409bn. However, adjustments made necessary by the sharp and continuing rise of the dollar against the lira, pushed up the balance sheet deficit to L428bn, although even this figure was a third lower than the L609bn registered in the first half of 1982. Total ENI sales rose 11 per cent, to L22,206bn.

Investment spending reached L1,990bn during the period, roughly in line with recent years, although the group emphasised yesterday that spending was now being concentrated in areas with the best prospect of profitability.

Bic profits rise by 35% midway

PARIS—Bic, the French manufacturer of disposable pens, cigarette lighters and razors, has reported a 35 per cent increase in its net income to FFr 175m ($21.9m) in the first half of this year.

Sales rose by 11 per cent to FFr 2.7bn, while earnings per share rose 32 per cent to FFr 39.67.

Bic attributed its strong first half earnings performance to its overseas subsidiaries and to the appreciation of the dollar and other currencies.

Net income of the parent company showed a decline of 10 per cent to FFr 41.6m.

INTERNATIONAL APPOINTMENTS

Chinese post at Lloyds Bank International

● Mr T. J. Williams, has been appointed area manager for the People's Republic of China at LLOYDS BANK INTERNATIONAL, Hong Kong. A specialist in banking business with the PRC, Mr Williams has recently joined LBI to fill this newly created post.

● Mr Robert J. Newhouse, Jr, will become chairman of MARSH AND McLENNAN INC., the principal subsidiary of Marsh and McLennan Companies Inc., on December 1. Mr Newhouse, who has been vice chairman of the parent company, will succeed Mr Alessandro C. di Montezemolo as chairman of the risk management and insurance brokerage arm, following Mr di Montezemolo's retirement. Mr Robert Clements, vice chairman, will become chairman of the new executive committee with March and McLennan, Incorporated. The executive committee will include Mr Bruce W. Schnitzer, president and chief executive, as well as Mr Newhouse and Mr Clements, and Mr Sherwood C. Blake, Mr Philip J. Brown Jr., and Mr David D. Holbrook, all executive vice presidents.

● Mr Geoffrey Breeze, AVIS-RENTACAR director of marketing Europe Africa and Middle East is leaving Britain to become director of marketing international at the Avis world headquarters in New York.

● MORGAN GUARANTY TRUST CO of New York has promoted Mr Antonio Aparicio and Mr José Manuel Huerta to vice-president. Mr Manuel Martinez was promoted to assistant auditor. They are all based at the Madrid office.

● AMERICAN MEDICAL INTERNATIONAL, INC, has promoted Mr Charles P. Reilly, director of corporate development, to executive vice-president. He is responsible for all AMI hospital and alternative service expansion. Promoted to senior vice-presidents were Ms Jennifer S. Flinton and Mr Neal L. Maslan. Ms Flinten is director of marketing and communications, and Mr Maslan is director of the company's western division, based in Brea, California. Ms Jean Settlemyre, director of management development, was promoted to group vice-president.

● Mr Joseph S. Nelewicz has been elected vice-president, public relations, at AMINOIL INC, HOUSTON. He was director of public relations. He joined Aminoil's parent company, R. J. Reynolds Industries, Inc in 1978 as a public relations representative and before that he was a reporter for The Sun newspaper in Baltimore, Maryland.

● Mr Dietrich P. Rogala, managing partner of Charles Barker Corporate Communications, Frankfurt, has been elected a member of the supervisory board of CHARLES BARKER, Frankfurt, the financial advertising agency.

● Mr Per Ramvall, vice-president, international operations division, developing countries, at ASEA in Vasteras, Sweden, has been appointed managing director of ASEA A.G., ZURICH from October 1. Mr Bengt Skantze, vice-president and division manager, process systems division, Sandvik AB, has been appointed head of a new business unit, ASEA International.

● Dr Cornelis Bokhoven will retire as general manager of MCN / METHANOR v.o.f. in Haren, the Netherlands, from October 1. He will be succeeded by Mr Anton F. van den Berg, formerly of DSM. MCN is a partnership of Akzo Salt and DSM, both of the Netherlands, for the production and marketing of formaldehyde and resins; Methanor is a partnership of MCN, the Netherlands, Dyno Industrier of Norway, and Kema-Nobel of Sweden, for the production and marketing of methanol.

● Mr James L. Murdy has been elected an executive vice-president of GULF OIL CORP. In this position, he serves as a member of the corporate management committee and chairs the Houston coordinating council, responsible for handling cross-company operating and administrative issues. He is also the executive contact for Gulf Oil Trading Co and is responsible for the corporation's information resources and information services departments. Mr. Colin M. Short has been elected vice-president, finance, and chief financial officer succeeding Mr Murdy. He will have responsibility for comptroller, tax, treasury and financial relations functions. Mr Joseph D. Mahaffey has been elected treasurer succeeding Mr Short.

● Mr George T. Esherick has been elected vice-president, government relations, of the AMERICAN IRON AND STEEL INSTITUTE. For the past 25 years Mr Esherick has represented the United States Steel Corp. in government relations in Washington. He succeeds Mr William H. Hefman Jr, who has been named director, public affairs and press relations for United States Steel Corporation.

● Mr Malcolm R. Seal has been appointed regional director of the Bahrain office of consulting engineers KENCHINGTON LITTLE INTERNATIONAL.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amex O/S Fin. 10¾ 90	100	94¼	94¾	0	+0¼	11.49
Bk. of Amer. 8 88 XW	150	†86	87	0	0	12.06
Bk. of Tokyo Hd. 11 90	100	94¾	95¼	+0¼	+0¼	12.10
Brit. Col. Hyd. 10¾ 88	200	97	97½	+0¼	+0¼	11.02
CCCE 11¾ 97	100	94¼	94¾	+0¼	+1¼	12.58
CIBC 11 90	75	92½	93¼	−0¼	+0¼	12.65
Citicorp O/S 10¾ 90	100	92¾	93¼	0	+0¼	11.96
Coca Cola Int. 9¾ 92	100	93¼	93¾	0	+0¼	11.08
Cr. Suisse Bah. 10¾ 90	150	†96½	97	+0¼	+0¼	11.20
Credit Suisse 10¾ 88	100	†99½	100	+0½	+1	10.54
Den Norsk Crd. 11¾ 93	50	93¾	94¼	0	+0¼	12.32
Du Pont 11¾ 85	150	99¾	100	+0¼	+0¼	11.27
ECSC 11¾ 90	75	99¾	100¼	0	+0¼	11.88
EDC 10¾ 88	100	97¼	97¾	0	+0¼	11.44
EDC 11¾ 87	100	101	101½	+0¼	+0¼	11.33
EDF 11¾ 93	100	93¼	93¾	+0¼	+0¼	12.28
EEC 10¾ 95	75	*90¼	90¾	+0¼	+0¼	12.31
EEC 11 87	350	98¼	98¾	+0¼	−0¼	11.43
EIB 10¾ 93	200	92½	93	0	+0¼	12.04
EIB 11 91	125	95¼	95¾	+0¼	+0¼	11.89
Electrolux 10¾ 90	50	91½	92	0	−0¼	12.36
Ensearch Fin. 11¾ 93	100	96	96½	+0¼	+0¼	12.28
Fuji Int. Fin. 10¾ 90	100	†93½	93¾	+0¼	+0¼	12.33
Gen. Elec. Credit 9¾ 91	100	92¼	92¾	+0¼	+0¼	11.20
GMAC O/S Fin. 10¾ 90	200	96¾	97¼	0	0	11.19
Honeywell Int. 10¾ 90	100	97¾	98¼	+0¼	−0¼	11.14
Ind. Bk. Japan 10¾ 88	100	97¾	98¼	+0¼	+0¼	11.46
Japan Air Lines 10¾ 98	42	93½	94	0	+0¼	11.77
Japan Air Lines 11 93	75	95¼	95¾	0	+0¼	11.78
J. P. Mrgn. 11¾ 90 WW	150	98¼	98¾	+0¼	−0¼	11.81
Levi Strauss Int. 11 90	75	97	97½	0	+0¼	11.56
LTCB 10¾ 90	100	93½	94	+0¼	+0¼	12.14
LTCB 12¾ 90	85	102¼	102¾	+0¼	+0¼	11.95
Merrill Lynch 10¾ 90	200	96	96½	−0¼	−0¼	11.44
Midland Int. F. 11¾ 92	150	97¾	98¼	+0¼	+0¼	11.88
Mitsubishi Cpn. 10¾ 90	100	93¾	94¼	0	+0¼	11.80
Mitsubishi Fin 11¾ 90	100	96	96½	+0¼	+1¼	12.19
Nippon Credit 11 90	100	94¾	95¼	+0¼	0	12.26
OKB 10 91	100	90¼	90¾	0	+0¼	11.82
Ontario Hydro 10¾ 90	250	93¼	93¾	+0¼	+0¼	11.68
Ontario Hydro 11¾ 89	200	100	100½	+0¼	+0¼	11.17
Ontario Hydro 12¾ 92	200	104½	105	0	+1	11.86
Prudential O/S 10¾ 93	100	95¼	95¾	+0¼	+0¼	11.31
Prudential O/S 12¾ 07	150	104½	104¾	0	−0¼	11.25
Saskatchwn. Pr. 10¾ 90	125	95¼	95¾	+0¼	+0¼	11.66
SNCF 11¾ 93	100	95¾	96¼	0	+0¼	12.11
S. Cal.-Edison 10¾ 90	75	95½	97	+0¼	+0¼	11.18
Sumitomo Fin. 10¾ 90	100	93¼	93¾	+0¼	0	12.30
Swiss Bk. Cpn. 10¾ 90	125	†95½	96¼	+0¼	+1¼	10.54
Texaco Capital 9¾ 90	150	94¼	95¼	+0¼	+1¼	10.87
UBS 10 88	100	97¼	98	+0¼	+1	10.61
UBS 11 88	150	101¼	102¼	+0¼	+0¼	10.55
Westpac Int. Fin. 11 90	100	†93	94	0	0	12.46
World Bank 10¾ 88	150	96¾	97¼	+0¼		11.25
World Bank 10¾ 93	100	94¼	95	+0¼	+0¼	11.79
World Bank 11¾ 88	100	98¾	99¼	+0¼	0	11.54
World Bank 11¾ 90	150	98¼	98¾	+0¼	+0¼	11.79

Average price changes... On day +0¼ on week +0¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Air Canada 7¾ 93	100	98¼	99¼	+0¼	+0¼	7.53
ANAS 8¾ 88	100	99¼	99¾	+0¼	+0¼	8.40
Austria. Rep. 7¾ 89	100	98¼	99¼	+0¼	+0¼	7.84
Austria. Rep. 8 93	100	99¾	100¼	+0¼	+0¼	7.97
Avon Int. Fin. 7¾ 93	100	98¼	99¼	+0¼	+0¼	7.66
BFCE 8¾ 90	100	99¾	100¼	+0¼	+1	8.26
Comp. T. N. Esp. 8¾ 93	100	95	95¼	+0¼	+0¼	8.97
Osaka Sk. 3¾ 91 WW	240	107¼	108¼	+0¼	+1¼	2.60
Osaka Bank 3¾ 91 XW	240	81¼	81¾	+0¼	+1¼	6.92
Dresdner Fin. 4 90 WW	250	109¼	109¾	+0¼	+0¼	2.45
Dresdner Fin. 4 90 XW	250	83¾	84¼	+0¼	+0¼	7.03
ECSC 8 90	150	100¼	100¾	+0¼	+0¼	7.87
EEC 8¾ 93	250	101¼	101¾	+0¼	+1¼	8.03
Eurofima 7¾ 90	100	98¼	99¼	+0¼	+0¼	7.71
Finland Rep. 7¾ 88	150	98¾	99¼	−0¼	+0¼	7.72
Int.-Am. Dv. Bk. 7¾ 93	200	95¼	96¼	+0¼	+0¼	8.42
Int. Standard Ele. 7¾ 93	100	99¼	99¾	+0¼	+0¼	7.80
Japan Govt. Bk. 7¾ 90	100	99¼	99¾	0	+0¼	7.56
Kobe City 7 93	100	95¼	96¼	+0¼	+0¼	7.61
LTCB 8 90	100	101½	102	+0¼	+1¼	7.65
Renault Acceptnce. 8 90	150	97¾	98¼	+0¼	+0¼	8.36
SOF France 7¾ 93	100	95¼	96¼	+0¼	−0¼	8.29
S. African Tran. 8¾ 90	100	98¾	99¼	+0¼	+0¼	8.41
Volkswagen Int. 7¾ 93	200	97¼	98¼	0	+2	7.56
World Bank 7¾ 90	250	97	97½	+0¼	+0¼	8.04
World Bank 7¾ 93	300	98	98½	+0¼	+0¼	8.07

Average price changes... On day +0¼ on week +0¼

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Akzo 5¾ 93	100	98¼	99	0	−0¼	5.78
Bank of Tokyo 5 91	100	101¼	101¾	−0¼	−0¼	5.78
Bergen, City of 5¾ 98	100	†99¼	100¼	+0¼	0	5.75
Carls-Tuberg 5¾ 93	80	101¼	101¾	0	−0¼	5.52
Denmark 6¾ 91	100	†102¾	103	+0¼	+0¼	5.92
EDC 5¾ 91	100	99¼	99¾	−0¼	+0¼	5.43
EIB 5¾ 93	100	98¾	99	−0¼	+0¼	5.90
Ex.-Im. Bk. Jap. 5¾ 91	100	98¾	99	0	+0¼	5.80
Ind. Fd. Finland 6¾ 91	40	101	101¼	0	+0¼	6.06
Int.-Am. Dv. Bk. 6¾ 93	100	†102	102¼	0	0	6.83
Japan Dev. Bank 5¾ 93	100	97¼	97½	−0¼	−1	5.86
Japan Dev. Bank 5¾ 93	100	99¼	99¾	+0¼	+0¼	5.81
Kansai Elec. Pwr 5 91	100	103	103¼	0	+0¼	5.49
Kawasaki Steel 6¾ 91	100	101	101¼	−0¼	−0¼	5.93
Montreal Urban 5¾ 93	100	101¼	102	+0¼	+0¼	6.49
Mount Isa Fin. 6 93	100	102¼	102¾	−0¼	−0¼	5.56
Nisshin Steel 6¾ 91	100	100	100¼	0	+0¼	6.22
Osterr. Draukraft 6 93	100	102	102¼	−0¼	0	5.71
Osterr. Post 6¾ 91	100	†102¼	102½	0	0	6.73
Quebec Hydro 5¾ 93	100	100¼	100¾	+0¼	0	6.41
Sekisui House 6 93	100	101	101¼	+0¼	0	5.84
Sumitomo Hvy. I. 6 91	100	†98½	99¼	0	+0¼	6.06
Sumitomo M. Ind. 6 91	100	*†101	101¼	+0¼	0	5.81
Tokyo Elec. Pwr. 5¾ 91	100	100¼	100¾	+0¼	+0¼	5.81
Trizec Corpn. 6¾ 91	100	101	101½	+0¼	−0¼	6.05
World Bank 6¾ 93	100	98¼	98¾	+0¼	+0¼	6.86

Average price changes... On day 0 on week +0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8¾ 92	15	104¼	104¾	+0¼	+0¼	7.91
EIB 8¾ 92	15	102¼	102¾	+0¼	+0¼	7.93
Japan Airlines 7¾ 87	0	†101¼	102¼	+0¼	+0¼	7.88
New Zealand 7¾ 89	15	102	102½	+0¼	0	7.12
World Bank 8¾ 92	20	103¼	103¾	+0¼	+0¼	7.78

Average price changes... On day +0¼ on week +0¼

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Cn. Pc. Scs. 11¾ 90 C$	75	†97½	98	0	0	12.36
Chrb. Fmnce 11¾ 95 C$	40	†93¼	93¾	0	+0¼	12.96
Farm Credit 12¾ 90 C$	75	†98¼	98¾	0	+0¼	12.61
Norcen 12¾ 93 C$	50	†95¼	96¼	−0¼	−0¼	13.49
TD Mt. Cpn. 12¾ 88 C$	40	†99¼	100¼	0	+0¼	12.49
Quebec Prov. 12 93 C$	50	†99	99¾	0	+0¼	12.11
Xerox Canada 12 88 C$	40	†101¼	102¼	0	+0¼	11.47
Forsmarks 11¾ 98 ECU	40	103¼	104¼	+0¼	+0¼	10.59
Svenska 11¾ 91 ECU	40	98¾	99¼	+0¼	+0¼	11.40
Algemene Bk. 8¾ 88 Fl	150	100¼	100¾	+0¼	+0¼	8.58
Bk. Mees Hope 8 88 Fl	75	101¼	102	+0¼	+0¼	8.55
Elect. Supply 8¾ 88 Fl	75	97¼	97¾	+0¼	+0¼	9.45
PHP 8¾ 88 Fl	50	100¼	100¾	+0¼	+0¼	8.81
Sw. Ex. Cred. 7¾ 88 Fl	100	96	96½	+0¼	+0¼	8.77
World Bank 8 88 Fl	100	102	102¼	+0¼	+0¼	8.42
OKB 14 88 FFr	400	100¼	101¼	−0¼	−0¼	13.37
Solvay et C. 14¾ 88 FFr	200	101¾	102¼	0	0	13.43
BFCE 11¾ 88 £	90	97¾	98¼	0	+0¼	11.97
British Oxyg. 11¾ 91 £	50	99¾	100¼	−0¼	−0¼	11.67
CEPME 11¾ 95	35	†98¼	99¼	0	+0¼	11.39
EEC 11¾ 91 £	50	99¾	100¼	+0¼	+0¼	11.84
Fin. for Ind. 10¾ 90 £	30	94¼	94¾	−0¼	−0¼	11.71
Fin. for Ind. 12¾ 88 £	30	103	104	−0¼	+0¼	11.25
Finland Rep. 11¾ 88 £	50	98¾	99¼	+0¼	+0¼	12.06
F. Mat. Oranj. 12¾ 92 £	90	101¼	102¼	0	−0¼	12.26
Gen. Elec. Co. 12¾ 88 £	90	102¼	103¼	−0¼	−0¼	11.74
Mort. Bk. Fin. 11¾ 89 £	16	97¾	98¼	+0¼	+0¼	12.30
Norsk Hydro 12 90 £	30	101¼	102¼	−0¼	−0¼	11.48
SNCF 11¾ 88 £	30	96¾	97¼	−0¼	+0¼	12.18
Sweden 11¾ 93 £	50	96¼	96¾	+0¼	+1¼	11.98
Sw. Ex. Cred. 11¾ 88 £	30	97	97½	0	−0¼	11.97
World Bank 11¾ 88 £	100	97¾	98¼	+0¼	0	11.80
World Bank 11¾ 88 £	75	99¾	100¼	+0¼	+1¼	11.30
Euratom 11 93 LuxFr	500	101¼	102¼	0	−1¼	10.69
Europarat 10¾ 93 LuxFr	600	102¼	103¼	0	+0¼	10.18

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
BFCE 5¾ 87	0¼	99¼	98¾	27/1	10¾	10.90
BFCC 0¾ 88	0¼	99¼	98¾	20/1	10.10	10.21
Caisse Nat. Tele. 5¾ 90	0¼	99¼	99¾	21/10	9.56	9.62
CCF 5¾ 95	0¼	99¼	99¾	7/10	10.19	10.25
CCF 0¾ 98	0¼	99¼	100	24/3	10.19	10.20
CEPME 0¾ 88 WW	0¼	99¾	100	3/12	10.56	10.59
CEPME 0¾ 92	0¼	99¾	99¾	10/12	10¼	10.53
Chemical NY 5¾ 94	‡0¼	100¼	100¾	23/12	10	9.93
CNCA 5¾ 95 XW	0¼	98¼	98¾	7/12	10	10.08
CNT 6¾ 91	0¼	96	96¼	6/11	9¼	9.33
Credit Agricole 5¾ 97	0¼	99¼	99¾	24/3	10.31	10.36
Credit Lyonnais 0¾ 94	0¼	98¾	99¼	5/1	10.31	10.36
Credit Lyonnais 5¾ 97	0¼	99¼	99¾	1/10	10.00	10.11
Credit Nat. 5¾ 94	0¼	98¼	98¾	8/3	10¼	10.80
EDF 5¾ 95 XW	0¼	98¾	100¼	10/2	11¾	11.38
EEC 5 90	0¼	99¾	100¼	5/1	10.19	10.19
Kansallis Osake 0¾ 92	0¼	100¼	100¾	6/11	9¾	9.08
Long Term Credit 5¾ 92	0¼	100	100¼	27/11	9¾	9.74
J. P. Morgan 5¾ 97	§0¼	101	101¼	12/11	10.81	10.69
New Zealand 5¾ 87	0¼	100¼	100¾	7/10	10.06	10.03
NZ Steel Dev. 5¾ 92	0¼	100¼	100¾	22/12	10¼	10.21
Nippon Credit 5¾ 90	0¼	100¼	100¾	10/2	11¾	11.18
Societe Gen. 0¾ 90 XW	0¼	99	99¼	9/11	9¾	9.21
Societe Generale 0¾ 95	0¼	99¾	100¼	1/3	10.31	10.32
Sweden 5¾ 89	0¼	100¼	100¾	26/2	10.19	10.16
Sweden 0¾ 93	0¼	100¼	100¾	3/2	11.19	11.12

Average price changes... On day 0 on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Bridgestone Tire 5¾ 96	3/82	470	110¼	111¼	+2¼	7.25
Canon 7 97	7/82	748.2	233¾	235¾	+1¼	14.39
Daiwa Sec. Co. 5¾ 98	10/83	508	97¼	98¼	0	2.89
Hitachi Cable 5¾ 98	2/82	516	107¼	109¼	0	1.65
Honda Motor 5¾ 98	6/83	884	107¼	108¼	−0¼	6.53
Honda Motor 5¾ 97	6/83	759.6	122¼	125	−0¼	−1.21
Kumagai Gumi 6¾ 97	10/82	400	122	123¼	0	−1.40
Kyowa Hakko 5¾ 97	2/83	782	115¼	116	0	12.77
Minebea Co. 5¾ 98	0/83	667	134¼	136¼	+1¼	0.60
Mitsubishi Elec. 5¾ 96	6/83	396	113¼	114¼	0	3.57
Nippon Electric 5¾ 97	2/82	785.3	182¾	184¼	+1	3.47
Nippon Oil Co. 5¾ 98	4/83	984	125	126	+1¼	1.94
Nissan Motor 5¾ 98	4/83	770	94¼	95¼	+0¼	8.01
Olympus Optic. 6¾ 97	12/82	1331	108¼	110¼	+0¼	9.70
Orient Finance 5¾ 97	3/82	827.2	95¼	97¼	+1¼	3.94
Orient Leasing 5¾ 98	6/83	2890	97¼	98¼	+0¼	−3.21
Secom 5 98	11/83	2520	121¼	122¼	−0¼	0.76
Sumitomo Elec. 5¾ 97	3/82	577.3	113¼	115¼	−0¼	−0.58
Sumitomo Met. 5¾ 96	10/81	296.1	75¼	76¼	−0¼	38.34
Yamaichi Sec. Co. 5 98	8/83	472	94¼	96	+0¼	2.79
NCC Cpn. 3¾ 93 SwFr	6/83	976	†150	152	−1	−0.48
Sanyo Elec. 3¾ 93 SwFr	5/83	501	106	108	−0¼	0.56
Konishiroku 6¾ 88 DM	6/82	616	118¼	119¼	+0¼	2.22
Mitsubishi H. 6 89 DM	2/82	263	113	114¼	0	−0.60
Sum Realty 6¾ 92 DM	2/83	365	122¼	123¼	+2¼	−3.81

EUROBOND TURNOVER

(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	6,650.2	11,461.7
Previous week	4,477.9	8,670.2
Other bonds		
Last week	1,392.2	769.2
Previous week	999.9	608.8

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg.day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Blyth, Eastman, Paine, Webber International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on September 30

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday October 3 1983

INTERNATIONAL BONDS

FRNs make awaited Euromarket return

BY MARY ANN SIEGHART

RUMOURS HAVE been flourishing in the Eurobond market for months that the sterling floating-rate note sector would reopen, after lying dormant for three years, but it was not until last week that a borrower finally took the plunge.

Société Nationale des Chemins de Fer (SNCF), the French railway, issued a £75m FRN on Thursday at ¼ point over the three-month domestic London interbank offered rate. The 10-year bond has the sweetener of optional redemption for the investor at the seventh year and is led by S.G. Warburg, with Paribas as an "out of order" co-manager.

Though the amount was originally scheduled to be £50m, Warburg raised it almost immediately to £75m. Market reaction was enthusiastic and by Friday, the note was trading at o discount of around 0.60 per cent, well within its 0.85 per cent selling concession.

SNCF could not have entered the market at a better time. As the chart shows, short-term sterling interest rates dipped below dollar ones in June for the first time this year. But more important is the strength of demand for such instruments. Everyone now appears to want sterling assets.

There are several reasons for this. First, the sterling acceptance credit market (the market in bills of exchange issued by companies and guaranteed by banks) is being squeezed by the Bank of England. After two years of rapid growth, the Bank has decided to clamp down.

But traditional sources of assets are drying up. Local authorities, which used to borrow from banks, are now finding it cheaper to approach the Public Works Loan Board instead.

In the corporate sector, loan demand is weak, and any sterling credit nowadays gets swamped with subscriptions. Witness the case of Sweden, whose loan last week was doubled to £500m.

The only problem this new market might face is one of supply. Several potential borrowers spring to mind: French state entities, sovereigns and maybe even supranationals. But few corporations want to borrow in sterling unless they have a specific operation to fund. And unless they need more than about £30m, it is usually cheaper to do a swap than issue a bond.

Another Eurosterling bond joined the reawakening equity craze last week. Ciba-Geigy, the Swiss pharmaceutical company, launched a £25m bond with equity warrants on Friday, again led by S. G. Warburg, but with J. Henry Schroder Wagg as co-lead manager. The bond is for ten years and carries a coupon of 6¾ per cent at par.

Each bond has two warrants, which entitle the holder to buy one Ciba-Geigy share each at SwFr 1,650. On Friday, the shares were trading at about SwFr 1,625, which gives a premium for the warrants of about 30 per cent. Nonetheless, the bonds traded on Friday above their par price.

It seems that a minor equity boom has been taking place over the last few weeks. Mitsui Engineering's bond with warrants, launched on Thursday, had a warrant premium of about 20 per cent, and many convertibles are currently trading over par.

This is reminiscent of last Mey, when warrants premiums soared to 35 per cent – and slumped just as dramatically within e matter of days.

In other areas last week, the dollar market remained cautious. Investors paused for breath after the previous weeks' rally and short-term interest rates provided no clue to the U.S. Federal Reserve Board's stance on credit. Prices on Eurodollar bonds rose only about ¼ point.

Markets in Switzerland and Germany had a more positive mood last week. In Germany, prices of seasoned bonds rose by about ½ point, and in Switzerland by ½ point.

THE RELATIVE MERITS OF TWO TYPES OF BORROWING

Danes stir Euromarket debate

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN WASHINGTON

LOOKED AT purely from the margin point of view it is not hard to explain Denmark's decision to tap the floating-rate note market for $500m instead of going for a syndicated bank credit. Denmark is paying a mere 3/16 margin over the London inter-bank offered rate for Eurodollars (Libor). This is more than ¼ point less than it would pay on a credit.

Looked at from the point of view of the total cost of the borrowing, however, the choice is less easy to explain. Not only are the fees on Eurocredits much lower than those on FRNs, but the nominal margin on the notes is also misleading when compared with the margin on a standard Eurodollar credit.

In fact there is a growing debate in the Euromarket about the relative costs of the two types of borrowing which is reminiscent of the controversy over prime-rate credits that started a couple of years ago. It is now almost universally agreed that an interest margin based on U.S. prime rate is more expensive to the borrower. A similar doctrine may soon be accepted for the FRN market as well.

The key factor is that the floating-rate market locks a borrower into a given interest rate for a fixed period of six months. During that time, the coupon cannot be changed even if interest rates fall. A Eurocredit, on the other hand, normally allows the borrower to choose an interest period of one, three or six months. At each interest rate change he can decide which is the best option. If rates are expected to fall he will take the shortest security; if they are going to rise he can choose the longer. The Eurocredit is thus much more flexible and should be cheaper in the long run.

A similar situation applies in reverse for lending banks. When a borrower is locked into a six months Libor interest rate, a bank can play the markets funding the FRN with shorter-dated money if thet is cheaper (which it usually is). The effective return to the bank including this funding advantage can thus be very much higher than in the case of a syndicated credit where the borrower has almost as much flexibility as the bank does.

This is one of the main reasons why FRNs are becoming so popular with banks.

There is also a growing interest in FRNs among institutional investors and even among some regional banks in the U.S., but a very large part of the new jumbo floating rate issues are now being taken up by international banks as a substitute for Eurocredits.

The bigger issues, such as Denmark's $500m FRN, appeal especially because they are large enough to guarantee liquidity in the secondary market. This is all the more true of Sweden's $1.2bn FRN arranged earlier this year through Credit Suisse First Boston. Dealing in this issue, one of the largest FRNs ever arranged in the Eurobond market, is said to have been so active that trading spreads have narrowed significantly.

It has become almost a cliche over recent years to talk of the growing integration of the bond and credit markets. Some bankers argue that what is now happening in the FRN market may eventually start to pull margins on syndicated loans lower, with banks forced to drop their interest margin requirement on the credits in order to get a slice of the FRN action. Some borrowers like to combine a credit with a FRN issue for precisely this reason.

Yet the wilder dreams of the more vigorous proponents of the FRN may take rather longer to realise. Most bankers agree that it is far too soon to talk of the FRN market replacing syndicated loans altogether. The bond markets are still much more selective in their choice of credit than the Eurocredit market, and it will be a long time before they open up to any but the better-rated risks.

Annual meetings stifle activity

BY MARGARET HUGHES IN LONDON

WITH BANKERS and borrowers preoccupied with the IMF and World Bank annual meetings there was little activity in the syndicated loan market last week. Even some of those borrowers who have already approached the market for funds are hanging fire until the relevant banks and officials return from Washington.

In the meantime, the main talking point continues to be the opening up of the sterling market with the success of the Swedish £500m loan, boosted by the issue last week of the first sterling floating-rate note for three years.

Having been heavily oversubscribed at lead manager level, the Swedish credit far exceeded its syndication target with a total of £160m commitments. Half the 32 banks participating at this level were first-time lenders to Sweden. Mr Brian Woolley, assistant director of Samuel Montagu, which co-ordinated the loan, said the Swedish success had "revolutionised perceptions of the sterling loan market" which would be reflected in a broadening of the market.

As if to bear out this prediction, Kleinwort Benson announced over the weekend that, in conjunction with Chase Manhattan, it had arranged a £160m deal for First National Securities, the finance-house subsidiary of First National Finance Corporation (FNFC).

The funding comprised a £40m acceptance tranche and a £120m four-year syndicated loan, claimed to be the largest such loan raised for a UK company.

Friday was the deadline by which bids were due for the $120m funding which Tunisia is seeking. Competition has been keen, with some 10 banks bidding to put together a package which could include the country's first floating-rate note issue. The mandate is expected to be awarded in the next week or so.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Comsat §‡	118	1998	15	7¾	100	CSFB, Bk. of America, Nomura Intl.	7.750
Denmark †‡	500	1990	7	5¼∅	100	Merrill Lynch	—
Konishiroku Photo §	50	1998	15	4	100	Nomura Intl.	•
Sears Roebuck ‡	150	1993	10	11⅝	100	Goldman Sachs, Dean Witter Reynolds	11.625
Britoil ‡	125	1990	7	11⅞	100	Goldman Sachs	11.875
Banco Hispano Americano †‡	100	1995	12	5¼∅	100	Commerzbank, Credit Lyonnais	—
Banco di Napoli †‡	100	1995	12	5¼∅	100	CCF, Dai-Ichi Kangyo Bk., Bk. of America	—
Mitsui Engineering ¶	50	1988	5	7¼	•	Nomura Intl.	
SWISS FRANCS							
JVC **§	100	1988	—	3¾	100	CS	
Mtge. Bk. of Denmark ‡	80	1991	—	6¼	100	CS	6.250
Opsac Dai-Ichi Denko **§	30	1988	—	•	100	Handelsbank	
Fujitec Co. **§	50	1988	—	3½	100	SBC	
Tokyo Hotel Chain **§	20	1988	—	3½	100	Swiss Volksbank	
Furukawa Co. **¶	40	1988	—	4⅛	100	CS	
Prov. of Manitoba ‡	100	1993	—	5½	99¾	UBS	5.533
Prov. of Manitoba **‡	200	1988	—	5⅝	100	UBS	5.625
Havas Finance	100	1991	—	6½	—	Sodéic	
IC Industries Fin. ‡	$640	1993	—	7½	—	UBS	7.500
Nagoya Railroad **‡	75	1988	—	6	100	UBS	6.000
Toshiba Ceramics **§	50	1988	—	3½	100	UBS	
Nichicon Capacitor **§	60	1988	—	3½	100	UBS	
Canon Electronics **§	30	1988	—	3½	100	SBC	
Canada Permanent **‡	31	1989	—	6½	100¼	CS	6.448
Royal Bk. of Canada **‡	130	1990	—	5¾	99½	SBC	5.839
STERLING							
SNCF †‡	75	1993	10	5¼∅	100	SG Warburg Paribas	—
Ciba-Geigy Intl. ¶‡	25	1993	10	6¾	100	SG Warburg, Schroder Wagg	6.750
AUSTRALIAN DOLLARS							
Woolworth O‡	30	1988	5	14¼	100	Orion Royal Bank	14.250
GUILDERS							
Finland ‡	100	1993	8	9½	101	ABN	9.317
NOR. KRONER							
Norsk Hydro ‡	200	1991	5½	12	99½	Den norske Creditbank	12.101
ECUs							
CEPME ‡	30	1987	4	10¾	100	BNP, BBL, Caisse des Depots et Cons., Nikko Secs.	10.750
CEPME ‡	30	1991	8	11¼	100		11.250
CEPME ‡	40	1995	12	11¾	100		11.750
LTCB ‡	40	1990	7	11⅛	•	Credit Lyonnais, Kredietbank, LTCB, Nippon Europ. Bk.	
YEN							
Belgium **‡	10bn	1993	9	8½	100	Daiwa Secs.	8.681

* Not yet priced. ‡ Final terms. † Floating rate note. ∅ Minimum. § Convertible. O Increased. ¶ With warrants. ** Dual currency issue repayable in dollars. Note: Yields are calculated on AIBD basis.

Closing prices September 30

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17¾	6¼	AAR	.44	2.9	19	13	15¼	15	10	-¼
52⅞	29½	ACF	1.40	2.8	64	1846	50½	49¾	50	-⅜
20	14½	AMF	.50	3.0		349	17	16½	16¾	-¼
38¾	13¾	AMR Cp			41	3804	28⅛	27¼	27½	-½
18½	14⅜	AMR	pf2.18	12.		79	18¼	18⅛	18⅛	
39⅝	24⅝	AMR	pf2.13	6.6		41	31⅞	31	31⅞	-⅛
16¾	2½	APL			31	131	16¾	14⅝	14⅞	-⅛
65	31¾	ARA	2.05	2.0	13	132	63	62	62¼	+¼
79⅝	42¾	ASA	3a	5.3		1109	57¾	56¼	56⅞	-⅛
33¾	9½	AVX	s .32	1.2	67	46	28⅛	27⅞	27⅞	-⅛
51¾	34¼	AbtLab	1	2.1	19	588	48¾	48¼	48⅝	-¼
30⅞	24	AccoW	n.80	2.0	20	355	35¾	34⅞	35¾	+½
27½	16¼	AcmeC	.40	1.5		155	23¼	22¼	22¼	-⅜
14⅜	7⅞	AcmeE	.32b	2.9	278	24	11⅛	10⅞	11⅛	-⅛
21¾	6	AdaxDg	.04	.2	18	42	21⅛	31¼	31⅝	+½
17⅞	14¾	AdaEx	1.73e	9.0		55	17¾	17¼	17⅝	
19¾	6⅞	AdmMl	.24	1.3	9	65	18⅛	17⅞	18	+⅛
18⅝	6⅞	Advest	s .12	.8	8	151	14⅞	14¼	14⅜	-¼
34⅝	8⅝	AMD	s		64	2583	31⅞	29¼	29¼	-1⅜
24⅝	12⅞	Aerflx	s		16	20	18	17¾	18	
44¼	32⅝	AetnLf	2.34	7.2	7	2213	36⅝	36	36⅝	+⅜
65	52⅞	AetL	pf5.18e	9.2		1	58½	56½	56½	
40½	14¾	Ahmns	.60	2.0	17	357	30⅛	30⅛	30⅛	-¼
7⅛	2⅞	Aileen				105	4½	4¼	4¼	-⅛
61	26⅞	AirPrd	1	2.1	13	254	47⅞	47⅛	47⅝	-⅛
27¼	12⅞	AirbFrt	.60	2.5	24	147	24½	24	24	-½
2½	1½	AlMos	s		18	58	2	1⅞	2	+⅛
33½	27¼	AlaP	pfA3.92	13.		6	31	30¼	30¼	
7⅞	6⅛	AlaP	dpf.87	13.		24	7	6⅞	6⅞	

Continued on Page 19

UK COMPANY NEWS

Tottenham Hotspur raising £3.5m with offer for sale

BY DOMINIC LAWSON

Tottenham Hotspur is coming to the Stock Market for a full listing. The principal business of the company is the operation of a professional football club, based in North London.

Tottenham's brokers, Sheppards and Chase, are offering for sale 3.5m new ordinary shares at £1 each, to raise £3.5m after expenses. The money will be used to reduce the company's bank borrowings of £5.5m.

The shares offered comprise 41 per cent of the enlarged equity, which in total will be capitalised at about £9.2m. The two largest shareholders will be Mr Paul Bobroff, the chairman, with 13.7 per cent, and Mr Irving Scholar, a director, who has 29 per cent of the equity.

Profits before transfer fees hovered around the £1m mark in the period 1979-81. In 1982 Tottenham made £771,000, but last year profits slumped to £168,000, as the annual interest bill rose to £500,000.

The picture looked bleaker after the net effect of Spurs' operations in the transfer market. On that basis, the company made losses in three of the last five years. In the year to May 31 1983 the loss amounted to almost £450,000.

However, with the cleaning up of the balance sheet, and income flow from the recently completed new West Stand, Tottenham is able to forecast profits before transfer fees of £850,000 for the year to May 31, 1984. After estimated transfer fees payable of £450,000, and a dividend payout of £211,000, about £100,000 would be retained at the bottom line.

On the basis of the enlarged share capital, and after deducting ACT on the dividend, the shares are being offered on an estimated actual tax prospective multiple of 11. The prospective gross dividend yield, on an annual payout of 4p, is 5.7 per cent.

The directors of Tottenham say that the share listing is "an important step in the development of the company as a broadly based leisure group. It will assist the group in taking advantage of the Spurs name and reputation."

The application list for the shares will open on October 6, and may close any time thereafter.

● comment

Not too much should be read into the profit and loss accounts in Tottenham Hotspurs' prospectus. They largely represent tha period wben Spurs was run as a private fiefdom, with littla regard for the bottom line. The new managerial broom effectively oonsists of two experts in ths property business. It is to be hoped that they will prove equally adept in the leisure industry. Looked at as a property company with floodlights, assets at least cover the price, assuming a realistic valuation of the Cheshunt training ground, currently in the books at cost. One element that does not appear in the balance sheet is the playing staff. The players register only as transfers a cash in, cash out business. But in fact Spurs' quality of earnings is surprisingly high, with about 70 per cent of projected income pre-sold in the form of ground and shirt advertising, season tickets, and company boxes. So the profits forecast looks secure. Given the tax shelter provided by previous losses, the decision to value the shares on an actual prospective multiplo of 13 is defensible. Serious investmeot considerations apart, ths shares seem certain to attract a great deal of speculative interest.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Percy Bilton, Clarke Nickolls and Coombs, Comfort Hotels International, Currys, Dwek, Foseco Minsep, Freemans, Gleeson, Jersey Electricity, Lamont, Moline, Rugby Portland Cement, Silentnight, Strike Restaurants, TR Pacific Basin Investment Trust.

Finals: A. B. Electronic Products, FII, Goodwin, Lister.

FUTURE DATES

Interims:

Benlox ... Oct 6
Hewden-Stuart Plant ... Oct 6
Lilley (F. J. C.) ... Oct 20
Office and Electronic Machines ... Oct 13
Roberts Adlard ... Oct 14
Silkolene Lubricants ... †Oct 6

Finals:

Bunton ... Oct 6
Peachey Property ... Oct 25
Young (H.) ... Oct 5

†Amended.

Cocksedge deficit up to £0.74m

DEEPER SECOND-HALF taxable losses of £455,000, compared with £226,000 pushed structural and mechanical engineer and steel stockholder Cocksedge (Holdings) further into the red from £493,000 to £735,000 in the year to March 31 1973. Turnover for the 12 months slipped by £185,000 to £2.38m.

With losses per 25p share given as 53p (35.6p) there is again no ordinary dividend—and the preference payout is for the first time also being missed.

For the current year, the company has taken orders of £1.5m in the first half and the directors point out that this compares favourably with the previous £511,000.

They are looking for turnover of £3.5m in the year as a whole and the company should start to trade at a profit in the second half they say.

In the year under review there was a tax credit of £1,000 (£3,000). Current cost adjustments increased the pre-tax losses to £781,000 (£595,000) and losses per share to 56.4p (39.9p).

The directors say the limit set on their borrowing powers by the articles of association are seriously inhibiting the company's recovery. Accordingly they are hoping to bring these limits more into line with currently accepted practice and at the same time redefine the formulae for arriving at the limits.

Southampton IoW Steam midway advance

For the first half of 1983 the Southampton, Isle of Wight and South of England Royal Mail Steam Packet increased pre-tax profits from £448,000 to £619,000.

The improvement is considered satisfactory by the directors, but they point out that a substantial element of the increase arose from the sale of tugs which were replaced in the previous year.

Operating costs for the six months were up at £352,000 against £313,000 on higher turnover of £3.86m compared with £3.62m.

The taxable result included a surplus on the sale of fixed assets of £109,000 (£3,000) and higher interest and dividends receivable of £157,000 (£132,000).

The directors expect that the full year's outcome, of this operator of a passenger, cargo and mail service between the Isle of Wight and Southampton, will not differ greatly from the £1.61m profit earned in 1982.

Earnings per 50p share for the first half rose from 6.25p to 8.67p and the interim dividend is lifted to 3p against 2.5p. Tax for the period took £322,000 (£233,000).

Andrew Weir

The authorised and issued share capital of Andrew Weir Insurance Company has been increased from £1m to £4m as from September 30 1983.

Midland Inds. loss but recovery on the way

EXCEPTIONAL DEBITS of £728,000 helped cause engineering and repetition ironfounding group Midland Industries to slump from taxable profits of £305,000 to losses of £1.83m in the first half of 1983. Turnover advanced from £13.02m to £14.2m.

The interim dividend is being missed, in order to conserve cash, and the directors are leaving the decision on a final distribution until the full year results are known. For 1982 a total of 2.6p was paid—including an interim of 1.1p—from taxable profits of £551,000.

However, looking ahead the directors say all the group's companies are well loaded with work and prospects appear bettor than for some timo. Furthermore, ths group is now trading profitably.

Provided the group is abla to maintain the momentum with reasonable order loads, the directors have every confidence that 1984 will be a profitable year.

During tha first half, although turnover in both tho foundry and the valves and finished products divisions increased, the group suffered from reduced margins particularly in the supply of castings to the automotive industry.

Restructuring, particularly at the group's Bingley foundry, took longer than anticipated, resulting in losses in the first six months. The reorganisation has been completed and the signs for the remainder of 1983 are encouraging, although it will be 1984 before the directors expect the full rewards to accrue to the foundries.

The exceptional charge consisted of devolopment expenditure of £102,000, inventory provisions of £198,000, provisions to reduce the net book value of certain plant and machinery to realisabla value of £325,000, and wrile-off of certain dsbtors amounting to £1.08m.

The pre-tax losses were struck after interest payabla of £696,000 (£611,000) and there was no tax charge (£42,000).

Long-term funds up £4m at Sentinel Insurance

THE LONG-TERM funds of Sentinel Insurance Company rose by nearly £4m in tha financial year to March 31 1983 from £21.99m to £25.89m.

Renewable premium incoma climbed by around 60 por cent from £3.06m to £5.01m, but single premiums rose by 12 per cent from £858,000 to £962,000. Investment income advanced 11 per cent from £2.58m to £2.88m.

Tho company experienced a massive npsurge in claims payments during the year. Death payments were one-third up at £452,000, while maturity payments rose by three-quarters to £1.17m.

The company recorded a substantial growth in new life business during the year. New annual premiums improved by one-quarter from £2.22m to £2.78m and singla premiums by 12 per cent. Ths Building Society Investment Plan bad another good year maintaining tha growth achieved in the previous year.

The actuarial valuation for ths three years to March 31 1983 disclosed a surplus of £2.33m, of which £2.14m was allocated to with-profit policyholders as bonuses. The company bas declared a reversionary bonus of £5.50 per cent of basic benefits on assurances and simple series deforred annuities and £4.25 per cent of the basic benefit and attaching bonuses on compound deferred annuities.

The maturity bonus scale arising in the current year ranges from £6 per cent of the sum assured and attaching bonuses for a 10 year term to £129 per cent for a 20-year policy.

African Lakes to maintain profit

Taxable profits of the African Lakes Corporation slipped from £170,743 to £164,109 for the six months to January 31 1983, on reduced turnover of £5.1m against £5.44m.

Mr B. S. Cleminson, the chairman, says lt is to early to forecast with any accuracy results for the year, bnt the board anticipates that they will not be less than last year (£200,267 pre tax).

Half-time pre-tax results included a reducod share of associates' profits of £21,851 (£28,224).

Tax charge was np from £16,154 to £24,109 but after lower minority debits of £40,676 (£62,105), attributable figures improved from £92,484 to £99,324.

Earnings per 25p share roso by 0.16p to 2.37p.

Hard Rock Cafe to join OTC market

Hamburger restaurant Hard Rock Cafe, based near London's Hyde Park Corner, is to have its share dealt on an over the counter (OTC) Market.

OTC specialists Harvard Securities is offering 4m shares —25 per cent of the equity— at 30p each to raise £1.2m. With profits of £260,000 forecast for 1983, that puts the shares on a multiple of about 26, and values the whole company at £4.8m.

The Hard Rock Cafe was the brainchild of Mr Isaac Tigrett, a U.S. citizen, who will hold about 60 per cent of the equity.

Wadkin machine sales rise

Mr Michael Goddard, chairman of Wadkin, the Leicester-based woodworking and metal cutting machine maker, said in an interview that sales and orders for the group's machining centres were rising rapidly despite the continuing stagnation of the UK market for machine tools.

Orders for the group's machining centres reached £1.25m in September. Orders taken during the third quarter were more than 350 per cent ahead of those received in the first and second quarters together.

Last year, less than a quarter of Wadkin's £26.4m turnover came from sales of machining centres, but this year the proportion would be higher, Mr Goddard said.

He attributed the order increases to the introduction of new models earlier this year. These made Wadkin's machines more competitive, particularly against Japanese models, in terms of price and performance.

Mr Goddard said there was no sign of a let-up in order intake, even though the SEFIS programme has now ended.

Wadkin returned to profit in the first half of this year after three consecutive years of losses aod a £2m plant and prodnct development programme.

Pre-tax profit in the first half was £280,000 compared with a loss of £650,000. Turnover was £11.89m compared with £13.37m. Io their Interim statement published early in September, the directors anticipated further steady progress

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price	+ or −	Net Div.	Times Covered	Gross Yield	P.E. Ratio
10	F.P.	—	24	20½	✠A. & M. Hiro 10p	23½	.....	b0.1	1.1	0.8	14.8
¶¶	F.P.	—	150	108	Assoc. Telecom	108	−5	b2.0	3.1	2.5	17.3
¶435	300	10/2	220	204	Brit. Petroleum	204	−6	20.26	1.9	6.5	12.2
‖ ‖	F.P.	—	170	168	✠Cent'l IndTVN/V50p	168	.....	—	—	—	54.4
140	F.P.	—	170	157	✠Flextech 10p	162	.....	—	—	—	24.4
60	F.P.	—	72	65	✠Freshbake Foods5p	65	−1	bg1.7	9.7	3.7	11.4
§17½	F.P.	18/8	24	20	✠Gilbert Hse Invs. 10p	22	.....	—	—	—	—
200	F.P.	—	218	203	Goring Kerr 10p	212	.....	b5.0	3.1	3.4	20.2
¶185	F.P.	23/9	186	164	Int. Signal & Control A	175	−2	uQ2c	4.0	0.8	32.7
¶¶	F.P.	—	72	55	Ivory & Simo 0.1p	60	.....	u0.25	11.8	0.6	28.52
§63	F.P.	—	71	70	✠Mainmet Hldgs 10p	70	.....	—	—	—	74.5
‖	F.P.	5/9	30	20	✠Metal Sciences 2½p	33	−2	—	—	—	—
§150	F.P.	—	161	156	✠PCT Group 10p	156	+1	b4.8	2.1	4.3	15.0
95	F.P.	19/8	94	87	Park Food 10p	87	.....	u3.0	2.0	4.9	14.9
¶¶	F.P.	—	35	32	P'sonal AssetsTst 12½p	34	.....	—	—	—	—
§111	F.P.	26/8	254	165	✠P'lyt'chnicM'rine5p	237	.....	ud2.0	1.9	1.2	—
100	F.P.	2/9	85	78	✠Tech. for Bus. 10p	80	.....	b4.2	6.0	7.5	11.1
65	F.P.	15/9	90	85	✠Thermal Scientific	87	.....	b2.3	2.8	3.8	15.6
¶	F.P.	23/9	19	15	Yorks&Lancs Inv. W's	17	.....	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price	+ or −
99.296	£25	29/11	28	26	Allied-Lyons 11¾% Deb 2009	26¾	.....
¶¶	F.P.	—	159	102	Atlantic Met'n (UK) 12% UL 21/97	102m	.....
—	£20	28/10	23¾	18	Bristol 11½% Red. 2008	21¾	.....
98.20	£20	21/10	27¼	22½	C.C.C. Economic 12¼% Gtd. Ln. 2013	20½	.....
99.73	F.P.	25/11	136¼	105½	Cigna Overseas Finance 15% Ln. 2008	105¾	.....
100	F.P.	27/10	102½	101	E'tbourne W'rworks12½pcR.Deb.2004	102½	+½
100p	F.P.	8/9	103p	101p	✠FKI 7% Red Cnv Pref	101p	.....
‖	F.P.	21/10	103¼	100	Fleming Am. Inv Tst 7% Cnv Uns Ln 99	101	.....
**	F.P.	30/9	103½p	101p	Fuller, Smith & Turner 8% 2nd Cm. Prf	103½p	.....
¶100p	86p	9/19	33¼p	26p	LASMO 9⅝% Cum Red Pref	38½p	−½
—	—	—	100⅝	100½	Nationwide 11¼% Bds 20/8/84	100⅝	.....
—	—	—	100⅜	99⅞	Do 11% Bds 3/9/84	100⅜	.....
—	F.P.	—	108½p	106p	Oceonics 10¾% Cum. Red. Pref. 1993	108p	+1
§100	F.P.	—	68½	22	Oldham 11¼% Red 2010	27½	+1
§100	F.P.	—	105p	102p	Rockware 7.7% Cum. Cnv. 2nd Pref.	102p	+1
98.579	£25	31/8	22	23½	Trafford Park Est. 11¼% 2007/11	95½pd	+½
67.941	£25	14/10	28¾	25¼	Transport Dev 19½% Uns Ln 2008	27½	.....
99.898	F.P.	30/9	129⅝	102¾	Watn'yM nn&Trum'n 12⅞% Red.Deb.2008	109⅝	.....
103.5p	—	—	102p	95½p	Weir 10% Red Cum Pref	96p	−2
99.124	£25	25/10	68¾	23¾	Westland 13⅞% Deb 2008	23	−¼
**	F.P.	23/9	107	100	Yorks & Lancs Inv 13¼% Deb 2003	107	+½
¶100	F.P.	—	102	102	York Waterworks 6.75pc Red.Pref1988	102	.....

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1983 High	1983 Low	Stock	Closing price	+ or −
92	Nil	—	—	17pm	12½pm	Anglo-Indonesian	15pm	−2
80	Nil	—	—	10pm	9pm	Assoc. Paper	10pm	.....
1250cts	Nil	—	—	68pm	42pm	Barlow Rand 10cts	60pm	−3
1	Nil	—	19/10	4½pm	2¾pm	Bridgend Proc. 'A' Ord. 1p	4pm	.....
93	Nil	—	—	4pm	3pm	C. H. Industrials 10p	3pm	−1
48	F.P.	—	28/10	48¾	46	Cambrian & Gen. Sec.	46	.....
65	F.P.	—	28/10	68	64	" " Cap. 7½p	65	.....
50	Nil	—	—	4pm	4pm	✠Coleman Milne 10p	4pm	.....
90cts	Nil	—	—	8½pm	1½pm	Eagle Corp'n. 10cts	8¼pm	+¾
440	F.P.	—	—	525	502	Exco Int'l. 10p	520	+10
82	F.P.	—	28/10	89	78	✠Floyd Oil 10p	78	.....
83	Nil	—	—	10pm	2pm	Garnar Booth	3pm	+½
40	Nil	—	14/10	82	51	Group Lotus Car 10p	68	.....
17	Nil	—	—	3pm	1½pm	Nolens of London 10p	1½pm	−½
50	F.P.	—	—	88	72	✠Marinex Pet. 10p	78	.....
35	Nil	—	—	10pm	5½pm	Munton Bros. 10p	5½pm	.....
A82	Nil	—	—	75pm	65pm	Nat. Com. Bk Aust. $A1	70pm	.....
80	F.P.	—	21/10	87	81½	Nesco Invs.	86	.....
20	F.P.	15/9	21/10	29	24	Parkdale 10p	27	.....
11	Nil	—	—	8pm	4pm	✠Parkfield Foundries 5p	6pm	+2
120	F.P.	—	—	129	122	Pritchard Servs.	127	.....
95	F.P.	—	14/10	146	126	Steinberg 10p	138	−1
310	F.P.	—	25/10	368	352	Tate & Lyle £1	354	.....
810	Nil	—	—	30pm	15pm	Utd. Newspapers	20pm	+2

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1983. H Dividend and yield based on prospectus or other official estimates for 1983-84. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. ● Figures or report awaited. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ✠ With warrants. ‡ Effective issue price after scrip. † Formerly dealt in under special rule. †† Dealt in under Rule 163 (3).

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Allied Irish Banks	Nov 8	Interim 4.5
Allnatt London Props	Nov 8	Interim 1.0
Assoc British Foods	Nov 11	Interim 1.5
*ANZ	Nov 21	Final 14 cents
*Bejam	Oct 16	Final 1.5
*Bell (A.)	Oct 4	Interim 3.5
*Bilton (P.)	Oct 3	Final 3.8
*Bowthorpe	Oct 11	Interim 1.873
Brit & Commwlth Shipping	Nov 11	Interim 7.0
*British Home Stores	Oct 16	Interim 1.75
Brooke Bond	Oct 16	Final 2.665
*Bryant	Oct 17	Final 3.0
*Cape Indust	Oct 4	Interim 1.7
*Coats Patons	Oct 13	Interim 1.4
*Currys	Oct 3	Interim 1.0
Debenhams	Oct 8	Interim 2.041
De La Rue	Nov 9	Interim 8.5
Electrocmpts	Nov 6	Interim 1.0
*Foseco Minsep	Oct 8	Interim 2.65
*Freemans	Oct 3	Interim 1.9
*Gill & Duffus	Oct 26	Interim 3.6
*Glaxo	Oct 10	Final 6.5
Gt Portland Estates	Nov 6	Interim 1.0
*Hambro Life	Oct 6	Interim 4.028
Hammerson Property	Oct 15	Interim 3.0
Harrisons and Crosfield	Oct 26	Interim 7.5
Hawker Siddeley	Oct 20	Interim 3.7
Hepworth (J.)	Nov 2	Final 3.21
*Ibstock Johnson	Oct 11	Interim 1.5
London Brick	Oct 28	Interim 1.951
*London and Northern	Oct 18	Interim 1.5
Lucas Inds	Nov 8	Final 5.0
Marks and Spencer	Oct 26	Interim 1.85
*Moline	Oct 3	Interim 2.2
Mowlem (J.)	Oct 14	Interim 2.1
*MEPC	Nov 30	Final 5.25
North British Props	Nov 3	Final 2.0
*Peachey Prop	Oct 25	Final 3.0
*Reed (Austin)	Oct 5	Interim 1.0
Reed Int	Nov 2	Interim 4.0
Rockware	Oct 13	Interim nil
*Rugby Portland Cement	Oct 8	Interim 2.8
Sainsbury (J.)	Nov 3	Interim 1.9
*Scottish Metro Prop	Oct 12	Final 2.0
*Sears	Oct 4	Interim 0.7
*Senior Eng	Oct 11	Interim 0.75
Smiths Inds	Nov 8	Final 7.0
*Telephone Rentals	Oct 19	Interim 2.0
UEI	Oct 14	Interim 1.8
Whitbread	Nov 6	Interim 1.65
Wolseley-Hughes	Nov 2	Final 10.26

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	Sept. 30	Sept. 29	Sept. 28	Sept. 27	Sept. 26	Sept. 23	1983 High	1983 Low	Since C'mpil'tn High	Since C'mpil'tn Low
◆ Industr'ls	1233.13	1249.14	1241.97	1247.97	1260.77	1255.58	1260.77 (26/9)	1027.04 (3/1)	1260.77 (26/9/83)	41.22 (2/7/32)
H'me Bnds	72.06	71.85	71.81	71.71	71.21	71.47	77.84 (6/6)	62.85 (3/8)	—	—
Transport	561.58	565.09	566.82	565.71	582.66	584.33	590.68 (27/6)	454.24 (3/1)	598.00 (27/6/83)	12.32 (8/7/32)
Utilities	134.08	134.25	134.97	134.73	134.73	133.48	134.97 (26/9)	119.51 (5/1)	163.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000's	70,860	73,730	75,820	81,100	86,400	93,160	—	—	—	—

◆ Day's high 1242.82 (1252.25) low 1224.59 (1235.09)

Indust'l div. yield %	Sept. 23	Sept. 16	Sept. 9	Year ago (Approx)
	4.43	4.53	4.48	5.92

STANDARD AND POORS

	Sept. 30	Sept. 29	Sept. 28	Sept. 27	Sept. 26	Sept. 23	1983 High	1983 Low	Since Cmpil'tn High	Since Cmpil'tn Low
Indust'ls	187.59	188.87	189.81	190.21	191.87	191.28	193.22 (22/6)	154.95 (3/1)	193.22 (22/6/83)	3.52 (30/6/32)
Comp'ite	166.07	167.23	168.01	168.43	170.07	169.21	172.65 (22/6)	138.34 (3/1)	172.65 (22/6/83)	4.40 (1/6/32)

	Sept. 28	Sept. 21	Sept. 14	Year ago (Approx)
‡ Indst'l div. yield %	3.82	3.00	3.95	5.25
Indust'l P/E ratio	14.60	14.58	14.33	8.90
Long Gov. Bond yield	11.34	11.50	11.32	11.63

N.Y.S.E. ALL COMMON

Sept. 30	Sept. 29	Sept. 28	Sept. 27	1983 High	1983 Low
96.24	96.86	97.23	97.47	99.01 (22/6)	80.32 (24/1)

Rises and Falls	Sept. 30	Sept. 29	Sept. 28
Issues Traded	1,932	1,942	1,903
Rises	584	623	334
Falls	947	859	854
Unchanged	401	457	433
New Highs	—	[illegible]	30
New Lows	—	[illegible]	12

MONTREAL

	Sept. 30	Sept. 29	Sept. 28	Sept. 27	1983 High	1983 Low
Industrial	448.58	456.16	461.78	464.83	468.90 (26/9)	351.16 (4/1)
Combined	425.54	431.37	435.64	438.82	441.29 (26/9)	373.12 (4/1)
TORONTO Composite	2490.8	2540.8	2561.5	2570.8	2588.2 (26/9)	1948.8 (4/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Southmark	1,106,700	11¼	+ ⅛
ATT	990,100	65	− ½
Amstar	912,800	46	+4½
Ill. Power	890,500	23¼	—
Mobil	825,600	31	− ⅞
Consumer Pwr.	809,300	12¾	+ ¼
Colace Ind.	762,800	31⅞	−1½
Tex. Oil & Gas	752,500	45	−2¾
Republic Steel	738,403	26½	−1
Merrill Lynch	723,500	33	− ⅞

	Sept. 30	Sept. 29	Sept. 28	Sept. 27	1983 High	1983 Low
AUSTRALIA All Ord. (1/1/80)	715.0	721.0	716.8	718.8	758.7 (12/8)	487.2 (4/1)
Metals & Mins. (1/1/80)	566.2	575.5	569.5	576.1	614.2 (5/8)	411.2 (4/1)
AUSTRIA Credit Aktien (2/1/62)	56.07	56.05	55.81	55.69	60.6 (5/6)	48.48 (15/2)
BELGIUM Belgian SE (31/12/63)	181.09	101.55	101.78	132.91	134.45 (1/6)	100.58 (4/1)
DENMARK Copenhagen SE (3/1/83)	—	197.74	197.64	196.55	204.22 (15/8)	100.00 (3/1)
FRANCE CAC General (31/12/82)	139.7	139.5	139.2	138.2	139.7 (30/9)	98.1 (3/1)
Ind Tendance (31/12/82)	149.4	148.5	148.3	148.1	149.7 (28/9)	98.0 (5/1)
GERMANY FAZ-Aktien (31/12/58)	316.21	317.20	317.81	317.10	331.86 (7/7)	241.33 (25/1)
Commerzbank (Dec1953)	939.0	941.2	941.5	940.7	986.3 (7/7)	727.9 (25/1)
HONG KONG Hang Seng Bank (31/7/64)	756.33	767.35	777.80	808.79	1102.64 (21/7)	756.30 (30/9)
ITALY Banca Comm Ital. (1972)	193.43	194.50	194.68	195.16	214.96 (21/6)	160.45 (10/1)
JAPAN** Dow Average (16/5/49)	9402.59	9432.61	9445.32	9414.16	9445.32 (28/9)	7803.18 (25/1)
Tokyo New SE (4/1/68)	691.06	692.85	694.57	692.62	694.57 (28/9)	674.51 (25/1)
NETHERLANDS ANP-CBS General (1970)	145.1	142.9	146.0	144.9	144.9 (26/9)	100.1 (4/1)
ANP-CBS Indust (1970)	118.8	116.3	118.5	118.5	119.8 (22/9)	80.8 (4/1)
NORWAY Oslo SE (4/1/83)	207.87	207.13	207.50	208.80	214.46 (19/8)	99.01 (4/1)
SINGAPORE Straights Times (1966)	879.35	879.20	880.75	881.83	992.02 (25/8)	712.23 (5/1)
SOUTH AFRICA Gold (1958)	889.9	850.4	859.6	889.2	1089.8 (1/2)	894.8 (29.5)
Industrial (1958)	951.4	956.9	955.8	955.8	969.7 (28/9)	740.9 (5/1)
SPAIN Madrid SE (31/12/82)	116.62	116.05	116.82	116.03	120.82 (13/7)	98.32 (11/1)
SWEDEN Jacobson & P. (1/1/58)	1456.58	1474.65	1461.42	1494.99	1528.60 (6.9)	898.16 (5/1)
SWITZERLAND SwissBankCpn. (31/12/58)	334.7	334.4	334.8	336.0	347.0 (4/8)	284.4 (4/1)
WORLD Capital Intl. (1/1/70)	—	161.5	162.6	162.1	163.0 (26/9)	134.3 (5/1)

(**) Saturday Sept 24: Japan Dow 9,314.00, TSE 687.85.

Base values of all indices are 100 except Australia All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrial. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

CANADA

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

FRANCE

[illegible]

SINGAPORE

[illegible]

SWEDEN

[illegible]

GERMANY

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

SPAIN

[illegible]

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 19

[illegible]

NEW YORK CLOSING PRICES

Continued from Page 19

[illegible]

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices September 30

Continued on Page 20

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 18

Continued on Page 20

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

FT UNIT TRUST INFORMATION SERVICE

Authorised Units—continued

Offshore and Overseas—continued

Insurances—continued

LONDON STOCK EXCHANGE

SOME UK MERCHANT BANKS ARE TRYING TO FORM AGREEMENTS WITH BROKERS

Jostling for a slice of the action

BY RICHARD LAMBERT IN LONDON

THE COMING reforms on the London Stock Exchange will have a profound impact on the City's merchant banking community. Many senior merchant bankers now believe that the shape and character of their business will be transformed during the next five years.

Out of eight such bankers interviewed last week, only one did not take it for granted that the days of single capacity on the London stock market were numbered. All the rest were working on the assumption that the rigid separation between brokers and jobbers in the London market was bound to break down, and that membership of the exchange would be thrown open to a much wider range of institutions than at present.

"The cosy carve-up betweem brokers end merchant banks – the distributors and the underwriters – is going to disappear," one banker said.

While no one is keen to speak on the record, the City is buzzing with speculation about the possibility of new groupings being formed between merchant banks end brokers. Some are already seeking to tie up gentlemens' agreements that will link them together if that seems desirable.

Merchant banks have several motives for getting into the broking business. For one thing, they both envy and fear the success of the big U.S. investment banks, which are active in corporate finance, market making and broking activities. They would like to get their share of the profits on securities distribution which are cornered by the brokers under the present trading system, and to broaden their existing securities dealing business.

Several are affiliated to broking firms in New York, and most are already dealing actively in a range of international securities. They want to build a domestic base for these operations.

"We see enormous growth in the international securities business over the next 20 years," another banker said. "Asset management in a multiplicity of currencies is going to increase dramatically."

As well as having an eye on new opportunities, the banks also feel distinctly vulnerable in their existing activities, to a blast of new competition from abroad. U.S. investment banks, in particular, are building new relationships with issuers of securities and fund managers in the UK, and could bring the two together by their ability to combine the role of risk taker and distributer.

The merchant banker's nightmare is that a Wall Street firm might one day make an aggressive bid for the whole of a UK equity offering, confident that it could distribute the shares itself through its own network of dealers.

As a first step, some London banks are now deciding whether to make strategic investments in top broking firms. Under the present rules, outsiders cannot buy more than 29.9 per cent of a stock exchange member firm, and some banks see this as a worthwhile way of getting a foot in the door.

As an example, one leading merchant bank has already opened its books to a well - known broking firm, in return for similar information from the broker. No formal commitments have been made, but each would be very surprised if the other were to link up with someone else.

Nobody wants to be the first to move, because of the possible repercussions on relationships with other firms. But according to one banker, it would not be at all surprising to see such a link-up announced in the next few months. "Once that happens, the cat will be among the pigeons."

Any such deal could well be followed by a rush of others. There is only a handful of really desirable marriage partners in the stock exchange, and no one wants to be left with a second league firm.

Longer term, it is widely assumed that the present limits on investment in stock exchange firms will be lifted. But some merchant banks would much prefer to build up their own operation than go to the risk and expense of acquiring outright control of a broking firm. "If my chairman were to give me £5m, I could guarantee to have a team of unbelievable excellence in place by the end of the week," claimed one banker.

A top flight broking firm would cost very much more than that, even though its profits outlook might be very uncertain in the new era of competition. Its best people would be hard to tie down in the salary structure of a bank, and might easily walk away.

However, some senior bankers fear that there may be no time to build their own in-house expertise before the marketplace is swamped by the likes of Merrill Lynch and Goldman Sachs. As a result, several are now lobbying in support of various proposals aimed at slowing down the momentum of change that is gathering force in the City.

The merchant banks will be affected in another important part of their business by the stock exchange reforms.

It seems likely that the removal of minimum commissions will put an end to the so-called "continuation" of bargains, whereby commissions can be reduced by grouping deals together over a period of time.

In effect, banks have been using this practice to buy shares on a wholesale basis and pass them on to their clients after a retail mark-up – but it is unlikely that they will be able to get away with this in the future.

Bankers expect their clients will insist on getting the benefit of negotiated commissions, and say that their management fees will have to rise if they are to maintain their profits.

But that may be difficult. Competition in fund management is already intense, and it is likely to become hotter as more brokers pile into the business in a bid to offset the squeeze on their agency income.

The potential conflicts of interest could be serious if one institution were able to combine the role of underwriter, market maker, dealer and fund manager.

Most merchant banks argue that they are used to building so-called "chinese walls" between sensitive areas of their business. But there is a view that, in order to protect investors, it may be necessary for institutions to spin off their fund management activities into separately owned entities if single capacity disappears.

No one has a clear idea of how the British securities market will develop over the next few years. But it seems clear that both the opportunities and risks which are now opening up for the merchant banks are going to be on a major scale.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

BUILDING AND CIVIL ENGINEERING

ATATURK DAM

Negotiating the Turkish labyrinth

THE TENDERING process in Turkey is as labyrinthine, mysterious and uncharted as the Byzantine workings that are dogging the planners of the new metro system due to be built in ancient Istanbul.

Nevertheless it was a surprise, even to the Turkish contracting industry, when the Government announced last month the outcome of the race for the $420m (£280m) civil works contract for the massive Ataturk Dam on the Euphrates river in the south east of the country.

The winners were a consortium led by Palet Insaat and including fellow Istanbul-based contractors Seri Insaat and Enerji Su of Ankara—a team widely regarded as long-odds outsiders.

On October 29, President Kenan Evren is expected to preside over groundbreaking ceremonies for the Ataturk Dam which will be by far the largest ever built in Turkey, with a height of 184 metres and a volume of 82m cu metres of filled rock. The resulting lake will take two years before it reaches its expected area of 817 sq km.

In planning this vast undertaking, Turkey's state hydraulics works (D.S.I.) have broken with precedent. The two previous large dams on the Euphrates were built by foreign firms—C.G.I. and Impregila in the case of the Keban Dam and Italstrade Torno for the Karakaya Dam.

Foreign firms who originally bid enthusiastically for the tender for the Ataturk withdrew in May this year when it became clear that the government intended to award the civil works contract to a home-based company. Only Bechtel of the U.S. remained in the bidding to the end, in a joint venture led by Enka of Istanbul. Their bid, however, came out highest at TL 144bn (£395.6m).

The next favourite should have been the giant Istanbul construction company Dogus which has built many of Turkey's largest dams and has by far the largest equipment park of any construction firm in Turkey.

When the original March prequalifications were announced, Dogus was one of only two Turkish firms left in the bidding. This led to allegations that the bidding was being fixed to give Dogus the contract.

So the prequalification procedures were revised during April and May. Some leading contenders such as a consortium of Kutlutas and Permini dropped out. Enka and Bechtel were re-admitted to the bidding on June 15. But the odds still seemed to lie with Dogus as on the final list of prequalified firms, only Dogus and Enka appeared to be large enough to carry out the job.

Dogus, however, came third in the bidding with a bid of TL 108bn (£297.3m). Lowest bidder was a consortium of three firms whose names made Turkish contractors scuttle for their reference books.

The Palet Insaat consortium had put in a bid of TL 102bn (£280.6m). Palet had built

dams in the past, but only two, and each had been tall by Turkish standards covering just under 2 per cent of the size of the Ataturk dam.

The 1982 Turkish contractors' year book in fact listed Palet as having 15 engineers and 200 workforce. It didn't, on the face of it, look a strong contender for the largest civil works contract in Turkish history.

Enerji Su, the second firm in the group, built the Suleoglu Dam for $500,000 (£333,000) and Seri Insaat have never been involved in dam building.

Nevertheless Mr Sedat Urundul of Palet was confident that his firm would be able to take on the Ataturk job. "It's far beyond what we've built in the past," he said. "But we can do it." He and DSI officials both continue to deny that the consortium will be enlarged, or that Dogus will have to be given a role in some form.

Work on the diversion tunnels, being carried out by Dogus, is now nearly complete with concrete lining under way. This means that work should be possible on the civil works contract soon.

The fiscal 1984 budget unveiled this week pigeon-holes TL19bn (£52m) for the Ataturk Dam. Most of the financing is in fact being supplied directly by the Turkish Government which has undertaken to revise costs annually with Palet to bring them into line with inflation.

However the government has also to find $200m (£133m) foreign currency.

Financing is also delaying a decision on the mechanical and electrical equipment tender. About $700m (£466m) has been offered in a package from the Swiss and West German governments together with a banking consortium to finance a deal with Brown, Boveri (BBC) and Escher Wyss. The contract was actually awarded on July 23, 1980. But according to D.S.I. officials, the tender will be re-opened again shortly. The generators in the Ataturk Dam will produce 8.1bn kW/hrs of electricity each year.

Turkish contractors frustrated in their bidding are now waiting to see what happens. One—who asked not to be named—said "the dam will get built eventually, but probably in the next century, and only when the Turkish lira has sunk to one thousand to the dollar."

Bureaucracy stamps on 'enveloping' schemes

CIVIL SERVICE bureaucracy is effectively "wrecking" a Government initiative to boost renovation of inner city housing, builders and local authorities now believe.

According to the National Federation of Building Trades Employers only about nine applications for central government subsidies for "enveloping" schemes have been approved accounting for only £1.2m out of a special fund of £60m allocated for the work for 1983/84.

More than 40 other applications are said to be stranded on Treasury and Department of Environment desks, some waiting as much as five months without a decision.

Enveloping schemes, where whole streets are subject to re-roofing, re-guttering, re-pointing and other external renovation, were given positive endorsement last winter by Mr John Stanely, the then Housing Minister.

The Government believed that if private owner-occupiers were supported by such schemes, they would pursue improvements by completing internal renovations, thereby "bringing-up" run-down areas.

Today, however, there is growing cynicism as to the extent of Government commitment. They argue that continual requests from the Treasury for minute detail on what each scheme proposes is stifling the initiative, some say as a deliberate attempt to save money.

Others claim that the delays are largely due to civil servants uncertainty as to the strength of support for the projects from the new Environment Ministers, appointed since the general election.

One clue as to the source of the delays emerged in a draft circular recently distributed to local authorities, proposing to ensure no publicly-owned housing enjoyed "enveloping" funds.

However, such a directive would further delay the perusal and approval of projects and thus worsen the civil service's reputation for unnecessary delays—a problem confronted in the planning field by Mr Michael Heseltine

IVO DAWNAY

Undercost tendering crushing industry, says Reading

THE GROWING chorus of criticism at the squeeze on middle-ranking and smaller building companies by their major competitors tendering policies is joined this week by Mr Bernard Reading, the often-outspoken managing director of Miller Buckley Construction.

Mr Reading's comments reflect similar anxieties expressed in the Financial Times last month by Mr John Lelliott, who claimed some large companies are now operating at below cost in the refurbishment sector.

"Builders are busily cutting their own throats," says Mr Reading. "Nothing appears to have been learnt during the long and continuing recession since 1975."

Mr Reading asserts that tenders are now going in at cost (and less) for major and minor work across the whole spectrum of building activities. The trend is being led by major building contractors, even in London and the South of England, where the recession is biting last.

In his view, the big contractors are in danger of leading the construction industry into collapse, because the smaller firms, the major part of the industry, just do not have the financial muscle to compete on the same suicidal terms. But even the major contractors cannot survive these misguided ways for long. "No matter how well they squeeze profit out of a job with 'at cost' as the base, they will not make enough to feed massive and not very liquid overheads.

"The irony is that if contractors lifted profit by just two or 3 per cent most clients would still proceed (£30,000 on £1m would not, in most instances, stop a project). But what a difference it would make to the survival of the contractor. Clients are now enjoying a very real "buyers market" and having their properties built at prices much less than just two or three per cent below what they should cost."

Mr Reading can offer no simple explanation as to why the leading contractors are so intent on maintaining a high flow of work at any cost. He suggests it may be because they do not want to face the massive expense of redundancy if they have to lay-off staff.

There is apparently no dearth of inquiries, but so far this has not led to a lift in contract prices. The industry is also contending with "patchy" labour shortages, both skilled and unskilled, and, more seriously, supplies are becoming difficult. Where only a short time ago brick stocks were mounting and brickworks closing down, now there are real problems with supplies of common bricks, and reinforcement bars are becoming scarce.

BERNARD READING

"In these circumstances it is not possible to cut tender prices to the bone and beyond, and expect to continue in business," says Mr Reading.

His own firm is the construction arm of the Miller Buckley Group, which has an annual turnover approaching £50m. In 1982 total construction activities in the group amounted to £30m. With this level of turnover Mr Reading does not feel himself threatened.

Miller Buckley Construction includes Miller Buckley Parnell and Benbow Shopfitting, two specialised refurbishment firms. (Parnell built the City Sporting Club beneath the brick arches of Cannon Street Station.) But even in this field Mr Reading says leading contractors are determined to tender below cost, often for work at price levels which not so long ago would have been beneath their dignity.

Mr Reading says the problem does not end with the contractors apparent death wish—it extends to the professionals, the architects and surveyors whose livelihood is just as much at risk if the industry goes under.

"Contractors do not need any help to dig a hole for themselves, but some professionals have been busy on the edge pushing us, and themselves, into it. They continue to fan the flame of extreme competition by, among other things, encouraging clients to seek the very lowest price by extending tender lists and mixing major contractors with the small fry. This has the effect of reducing their own fees. How daft can you get?"

But according to Mr Reading the iniquitous acts do not end here, and he quotes the introduction of onerous contract conditions, such as the A.C.A. form for design responsibility, extending the payment period from 14 days after certificate (and excluding the more usual J.C.T. 23(g)).

He finds it difficult to obtain negotiated contracts where everyone is looking for a fair level of profit—all are now out to tender for the lowest figure.

As a final straw, he has encountered clients who instead of the usual bond, demand a cash deposit of 5 per cent or more as "protection." "This sort of sum," says Mr Reading, "could ruin a small contractor who needs the working capital."

"We will see some further construction company collapses if the market does not change soon and if our industry continues to be so reckless. We cannot change the market very much ourselves, but we can protect our companies and practices more sensibly than we do.

"Perhaps the NFBTE, which is supposed to be the voice of the contracting world will one day shout vociferously, and try to make the industry listen to some common sense."

As a final picture of disaster, Mr Reading outlines a scenario in which all the smaller contractors have vanished leaving only a few really large construction companies in business. "With a Labour government in power, what is to stop nationalisation of the building industry?"

TONY FRANCE

CONTRACTS

£14m for Kier International in the Caribbean

KIER INTERNATIONAL, part of the French Kier Group, has been awarded Caribbean contracts totalling about £14m. Three are located in Port of Spain, Trinidad, and comprise: a £3.4m contract for the design and construction of a five-level multi-storey car park to accommodate 500 cars for Nealco Properties; two 13,500 cu metres circular, prestressed concrete service reservoirs, worth £4.4m, for Trinidad and Tobago Water and Sewage Authority; and the construction of a three-storey concrete frame office building with exterior full length glazing, worth £1.3m, for Victoria Investments. The fourth, awarded to Caribbean Construction Company, a Kier International subsidiary, is worth £4.8m and is for the construction of a six-storey office building for Jamaica Mutual Life Assurance Society in Kingston.

*

MOWLEM has ordered tunnelling equipment for its £8.9m Don Valley interceptor sewer contract in Sheffield, Yorkshire. The shield, from Stel-co of Ashford and roadheader from Dosco of Tuxford, Nottingham will be delivered towards the end of November. Preliminary work on the contract, awarded by Sheffield City Council, has already started. Mowlem is to construct 2.23 km of 3.81 metres diameter lined segmental tunnel, 960 metres of 1.8 metres diameter branch tunnels and nine shafts. Consulting engineering services are being provided by tha client and the contract is due for completion in mid-summer 1986.

*

Contracts worth more than £3m have ben awarded to MANSELL for new-build, refurbishment, alterations and repairs in central, west and south-east London. At Conduit Street, near Regent Street, an existing building has been demolished and an office block is to be constructed under a £637,000 contract for the Co-operative Insurance Society, alterations are under way at a car warehouse under a £550,000 contract for Datsun Cars. At while at Hither Green, Catford, Wilton Crescent, Pimlico, a £488,000 contract for alterations and fitting-out of a high-class residential property has been awarded by Wizard (Curacao) Investments NV, and a contract worth almost £400,000 has been awarded by the London Borough of Greenwich for reroofing and window repairs to property in Inla Drive, Eltham.

*

Declan Kelly Associates has awarded W. C. HILTON AND SONS a £1.4m contract to build 86 timber-framed dwellings and all roads, sewers and external works as part of a £20m phased development undertaken by Pegasus Homes, Hyde Drive, Ifield, Crawley, Sussex. The contract period is 50 weeks.

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
23May	22N	Exch. 13½pc '83	100[illegible]	11.[illegible]	13.44	9.32
12Jun	12D	Exch. 10pc 1983	100[illegible]	[illegible]	9.99	9.27
15Jul	15Ja	Funding 5½pc '82-84‡‡	99[illegible]	[illegible]	5.55	8.67
20Aug	20F	Exch. 11¼pc 1984	100[illegible]	14.[illegible]	11.19	9.47
22N	22May	Exchequer 14pc 1984	102[illegible]	15.[illegible]	13.67	9.89
19D	19Jun	Exch. 3pc 1984	95[illegible]	[illegible]	3.14	9.43
26Mar	26S	Treasury 12pc 1984	102[illegible]	[illegible]	11.74	9.64
22Aug	22F	Treasury 15pc 1985	105[illegible]	[illegible]	14.18	10.36
22S	22Mar	Exch. 12pc Cnv. '85	102[illegible]	[illegible]	11.69	10.83
21N	21My	Treasury 3pc 1985	92[illegible]	[illegible]	3.26	8.28
15Jan	15Jul	Treasury 11½pc 1985	102[illegible]	[illegible]	11.25	10.07
3 Mar	3 Sept	Treas 8¾pc Cnv '85	98[illegible]	28.[illegible]	8.90	9.71
22May	22N	Exch. 12¼pc 1985	103[illegible]	[illegible]	11.86	10.46
25 Aug.	25F	Exch. 11¼pc '86	102[illegible]	19.7	11.48	10.59
—		Treas 10pc Cnv 1986	100[illegible]	—	9.99	9.95
19N	19May	Treasury 3pc 1986	87[illegible]	12.4	5.43	8.45
19 Nv	19 My	Exch. 10½pc Cv '86	99[illegible]	—	10.51	10.51
12D	12Jun	Treasury 12pc '86	102[illegible]	6.5	11.71	10.86
10Ja	10Jul	Treasury 8½pc '84-86‡‡	95[illegible]	3.6	8.89	10.35
14 Jan	14 Jy	Treas. 12¾pc '86 Cnv.	108[illegible]	7.6	11.28	0.70
29Apr	29Oct	Exch. 14pc 1986	107¾xd	23.3	13.00	10.97
22Jul	22Jan	Exch. 13¼pc 1987	105[illegible]	15.6	12.51	11.83
10 Fb	10 Ag	Tr 10¼pc Cv '87	98[illegible]	—	10.42	10.83
24 Fb	24 Aug	Exchequer 2½pc 1987	81[illegible]	18.7	3.07	8.90
Oct 6	Apr 6	Exch. 10½pc 1987	98[illegible]xd	1.9	10.62	10.91
1N	1May	Funding 6½pc '85-87‡‡	88[illegible]xd	25.2	7.31	10.29
—		Treas 10pc '87 (£20pd)	20[illegible]	—	10.26	10.88
14Ja.	14Jul	Treasury 3pc 1987	81[illegible]	7.6	3.68	8.83
3 May	3N	Treas 12pc 1987	103[illegible]xd	28.3	11.65	11.06
26Jul	26Ja	Treasury 7¾pc '85-88‡‡	90[illegible]	20.6	8.58	10.56
10 My	10 Nv	Exch 10½pc '88	98[illegible]	5.4	10.65	10.90

Five to Fifteen Years

Over Fifteen Years

Undated

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INDUSTRIALS (Miscel.)

INSURANCE & OVERSEAS MANAGED FUNDS

Barclays Life Assur. Co. Ltd.—cont.

Income Accum	114 1	120 3	+0 3	—
Do Initial	110 1	116 6	-8 2	—
Man Pens Accum	243 4	256 3		—
Do Initial	201 6	212 3		—
Gilt-Edg Pen. Accum	210 3	221 3		—
Do Initial	167 5	176 3		—
Money Pens Accum.	186 8	196 8		—
Do Initial	150 2	158 3		—

Black Horse Life Ass. Co. Ltd.
71, Lombard St., EC3 01-623 1288

Black Horse Man Fd.	231 39			—
Managed Int Fd.	156 88	165 14		—
Property Fd.	150 30	158 23		—
Fixed Interest Fd.	141 61	149.07		—
Cash Fd.	135 42	142.55		—
Income Fd.	172 51	181.59		—
Extra Income Fd.	162 92	171.50		—
Worldwide Growth Fd.	229 60	241.69		—
Balanced Fd	175 22	182.34		—
Smlr Co's & Recy. Fd	207 34	218 26		—
Int. Technology Fd.	261 70	275 48		—
Nth. Amer. & Gen Fd.	164 70	173.37		—
Energy Int. Fd.	107.92	113.60		—
Pacific Basin Fund	125 75	132.37		—

British National Life Assurance Co. Ltd.
Harlands Rd, Haywards Heath. 0444 414111

Managed	112.1	118.0	+0.8	—
Property	107.0	112 7	+8.8	—
Equity	114.3	120.3	-0.3	—
International	128 8	135.5	+1.7	—
Fixed Interest	101.4	106.7	+0.6	—
Deposit	99 0	104.2	-0.1	—
Managed Pen. Cap.	113 1	119 0	+0.9	—
Property Pens. Cap.	106 2	111.8	+0.9	—
Equity Pens. Cap.	109.2	114 9	-0.6	—

G.T. Management Ltd.
16 Finsbury Circus, Lond EC2M 7DJ 01-628 8131

G.T. Plan Bond Fund	121 1	127 5	+1 0	—
GT Pln High Yld Fnd	117 1	123 3	-0 8	—
GT Plan Far East Fnd	114 3	120.4	+0 1	—
GT Pln N Am Fund	143 4	151 0	-2.3	—
GT Pln UK&G E Fnd	130 9	137 8	-1 2	—
GT Pln Wrldwde Fnd	135.3	142 5	-2.1	—
GT Pension Bnd Fnd.	130 3	137 2	+0 4	—
GT Pen High Yld Fd.	133.5	140 6	-1 1	—
GT Pen Far East Fd	139 2	146.6	+0.3	—
GT Pen N Am. Fd	210 9	222 0	-3 4	—
GT Pen UK & G E Fd	151 9	159 9	-1 3	—
GT Pen Worldwide Fd.	144 4	152 1	-2 5	—

Assicurazioni GENERALI S.p.A.
117, Fenchurch St., EC3M 5DY 01-488 0733

Intl Managed Bond.	166 9	175 7	+2.8	—

General Portfolio Life Ins. C. Ltd.
Crossbrook St., Cheshunt, Herts. Waltham X 31971

Portfolio Fd. Acc.		249.3		—
Portfolio Fd Init.		206.7		—
Portfolio Fd. Cap		238.3		—
Investment A/cs	249.2	262.4		—

Growth & Sec. Life Ass. Soc. Ltd.
48, London Fruit Exchange, E1 6EU 01-377 1122

Flexible Finance		1,526		—
Landbank Secs.		66.15		—
Landbank Scs. Acc.	185.6	190.4		—
G. & S. Super Fd.		£11.376		—

Guardian Royal Exchange
Royal Exchange, E.C.3. 01-283 7101
Guardian Assurance

Property Bonds	305.6	318.3	+2.9	—

London A'deen & Nthn. Mtl. Assur. Ltd.
129 Kingsway, London, WC2B 6NF 01-404 0393

'Asset Builder'	65 4	69 3		—

London Indemnity & Gnl. Ins. Co. Ltd
18-20, The Forbury, Reading 583511

Money Mngr Sept 15	61.2	66 0		—
MM Flexible Sept 6	52.6	55.4		—
Fixed Interest Sept 15	54 7	57.7		—

London Life Linked Assur. Ltd.
100, Temple St., Bristol, BS1 6EA 0272-279179

See adjacent Page Mon-Fri and Stock Exchange Page Sat.

London & Manchester Gp.
Winslade Park, Exeter EX5 1DS. 0392 52155

Invest. Tst. Fd. Cap	290 9	—	+0 1	—
Invest. Tst. Fd Acc.	307.4	—	-0.1	*12.3
Property Fund Cap.	117 2	—	+0.1	—
Property Fund Acc.	123.5	—	+0 1	*4.3
Flexible Fund Cap.	181 8	—	-0 1	—
Flexible Fund Acc.	141.6	—		*4.4
Fixed Int. Fd Cap.	139 6	—	-0.4	—
Fixed Int. Fd Acc.	147.3	—	-0.4	—
Gtd. Deposit Fd. Cap.	138 9	—		—
Gtd. Deposit Fd. Acc.	145 9	—		—
Equity Fund Cap	129.9	—	-0.1	—
Equity Fund Acc	136.5	—	-0.1	—
International Fd Cap	139.5	—	-8.2	—
International Fd Acc	146.6	—	-0.2	—
Capital Gwth. Fd.	428.8	—	+0.2	—
Moneymaker Fund	169.2	—	-0 1	—
Exempt Inv Tst Cap	405.3	—		—
Exempt Inv Tst Acc.	430.9	—	+0.2	—
Exempt Inv Tst NS	418.5	—	+0.1	*8.4
Exempt Prty Cap.	188 9	—	-0.2	—

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

NOTES

[illegible]

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Drifting dollar hits EMS

BY COLIN MILLHAM

The dollar drifted lower on the foreign exchanges last week, as the market showed less concern about the high level of U.S. interest rates, and took more notice of fundamental economic factors. The general easing in U.S. M1 money supply in September, has brought the figure within the Federal Reserve's target range, while even the mid-month bulge of $5.5bn was much lower than the worst estimates, and the dollar has lost ground in expectation of lower New York interest rates.

A trade-deficit of $7.19bn for the U.S. in August came as little surprise to the market, but had to be judged against a rise of 2.8 per cent in Japanese industrial production during the same month.

A weaker dollar also dragged down sterling, since both currencies have tended to move in sympathy recently, and there is every expectation that interest rates will continue to decline in New York and London.

The pound finished the week well under DM 4 against the D-mark and FFr 12 in terms of the French franc, but this trend is likely to be welcomed in official circles, with an otherwise cheerful Bank of England quarterly bulletin showing concern at Britain's dismal export performance.

Against this background sterling's performance remained geared to expectations of lower London interest rates, and paid little attention to threats by Iran to close the Strait of Hormuz.

Any danger to oil supplies from the Gulf would obviously benefit the pound at the moment, but this seemed to be viewed with no more concern than the war in the Lebanon, which had previously supported the dollar.

As the dollar fell on the foreign exchanges demand increased for the D-mark and yen. The performance of the Japanese currency is of little more than academic importance at the moment, but the strength of the D-mark may cause further early problems within the European Monetary System. The potentially weaker members of the EMS: the Italian lira, and French and Belgian francs were at record lows against the D-mark last week. The Belgian franc seems to be the major problem at present, but although the French franc and lira are not under any strong pressure within the system, the implications are obvious if a weak dollar continues to push international funds towards the D-mark.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU September 30	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9008	45.8906	+2.20	+1.69	±1.5447
Danish Krone	8.14104	8.16621	+0.31	−0.20	±1.6425
German D-Mark	2.24184	2.26145	+0.87	+0.36	±1.0642
French Franc	6.87456	6.86984	−0.07	−0.58	±1.4052
Dutch Guilder	2.52595	2.52896	−0.09	−0.42	±1.4964
Irish Punt	0.72569	0.725977	−0.02	−0.53	±1.6699
Italian Lira	1403.49	1370.27	−2.37	−2.37	±4.1505

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

Sept. 30	£	$		£ Note Rates
Argentina Peso	10.39-13.66	12.97-13.13	Austria	27.60-27.80
Australia Dollar	1.5570-1.5590	1.1149-1.1145	Belgium	80.70-81.50
Brazil Cruzeiro	1,059.18-1,164.45	738.0-788.0	Denmark	14.10-14.25
Finland Markka	8.4450-8.4490	5.6500-5.6560	France	11.90-12.02
Greek Drachma	138.90-138.60	92.80-92.70	Germany	3.92¼-3.96¼
Hong Kong Dollar	12.10-12.28	8.11-8.17	Italy	2375-2405
Iran Rial	130.50*	86.90*	Japan	351-356
Kuwait Dinar(KD)	0.4345-0.4350	0.29095-0.29075	Netherlands	4.38½-4.42½
Luxembourg Fr.	79.80-80.00	53.38-53.40	Norway	10.87-11.07
Malaysia Dollar	3.5050-3.5150	2.3445-2.3455	Portugal	182-201
New Zealand Dlr	2.2705-2.2765	1.5178-1.5198	Spain	218-224
Saudi Arab. Riyal	5.2015-5.2059	3.4793-3.4788	Sweden	11.58-11.76
Singapore Dollar	3.1925-3.2025	2.1350-2.1380	Switzerland	3.15¼-3.19¼
Sth. African Rand	1.6500-1.6529	1.1025-1.1035	United States	1.48½-1.50½
U.A.E. Dirham	5.4898-5.4940	3.6729-3.6739	Yugoslavia	165-169

* Selling rates.

THE POUND SPOT AND FORWARD

Sept 30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.4925-1.5000	1.4965-1.4975	0.04c pm-0.01 dis	0.12	0.01-0.06dis	−0.12
Canada	1.8395-1.8465	1.8440-1.8450	0.10c pm-par	0.32	0.10-0.09 pm	0.11
Nethlnd.	4.39-4.43	4.40-4.41	1⅛-1c pm	3.74	3¼-3⅛ pm	3.18
Belgium	79.75-80.25	79.90-80.00	8c pm-2 dis	0.45	par-10 dis	−0.25
Denmark	14.13-14.25	14.21½-14.22½	1.40-0.30ore pm	0.74	0.25-1.35dis	−0.22
Ireland	1.2600-1.2680	1.2630-1.2640	0.23-0.31p dis	−2.58	0.78-0.95dis	−2.76
W. Ger.	3.92½-3.96½	3.93½-3.94½	1⅛-1pf pm	3.81	3⅛-3⅛ pm	3.68
Portugal	184.50-186.50	185.50-186.00	135-445c dis	−18.73	635-1240dis	−20.18
Spain	226.20-227.80	227.40-227.60	225-270c dis	−13.05	700-775dis	−13.14
Italy	2382-2395	2384-2386	15-17lire dis	−8.05	47½-51½ dis	−8.30
Norway	10.95-11.02	10.98-10.99	3.00-3.60ore dis	−3.63	8.25-10.00dis	−3.31
France	11.94-11.98	11.96-11.97	2¾-3¾c dis	−3.26	13¼-15¼dis	−4.76
Sweden	11.65¼-11.71½	11.69-11.70	2.00-2.50ore dis	−2.28	7.50-8.10dis	−2.67
Japan	351-355½	352½-353½	0.95-0.75y pm	2.89	2.55-2.35 pm	2.78
Austria	27.60-27.80	27.70-27.75	9⅛-8gro pm	3.76	22⅛-19⅝ pm	3.04
Switz.	3.16½-3.19½	3.17½-3.18½	2½-1⅞c pm	6.14	4⅞-4½ pm	5.35

Belgian rate is for convertible francs. Financial franc 81.10-81.20. Six-month forward dollar 0.18-0.21c dis, 12-month 0.45-0.55c dis.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.4970	1.4968	1.4976	1.4989	1.5020
D-Mark	3.94	3.9275	3.9038	3.8727	3.8168
French Franc	11.9650	11.9975	12.1075	12.3265	12.6709
Swiss Franc	3.1776	—	—	—	—
Japanese Yen	353.0	352.1	350.5	348.3	343.6

BANK OF ENGLAND TREASURY BILL TENDER

	Sept30.	Sept. 23.		Sept. 30	Sept. 23
Bills on offer	£100m	£100m	Top accepted rate of discount	8.9846%	9.0047%
Total of applications	£478m	£376m	Average rate of discount	8.9580%	8.9625%
Total allocated	£100m	£100m	Average yield	9.17%	9.12%
Minimum accepted bid	£97.760*	£97.755	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	18%	3%			

* 91 day bills: 92 bills £97.74.

CURRENCY MOVEMENTS

Sept. 30	Bank of England Index	Morgan Guaranty Change %
Sterling	83.6	−7.3
U.S. dollar	127.9	+15.5
Canadian dollar	88.3	+1.1
Austrian schilling	117.1	+5.4
Belgian franc	90.7	−11.7
Danish kroner	80.0	−8.1
Deutsche mark	128.4	+7.6
Swiss franc	152.5	+15.6
Guilder	118.5	+4.9
French franc	67.6	−14.4
Lira	48.8	−11.5
Yen	154.8	+12.9

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

Sept. 30	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.705585	0.574835
U.S. $	8½	1.05684	0.859275
Canadian $	11⅞	1.30339	1.05875
Austria Sch.	3¾	19.6650	15.9414
Belgian F.	10	56.4409	45.8906
Danish Kr.	7	10.0539	8.16621
D mark	4	2.78011	2.26145
Guilder	5	3.11769	2.52896
French Fr.	9½	8.45422	6.86984
Lira	17	1685.63	1370.27
Yen	5½	249.530	202.425
Norwgn Kr.	8	7.77854	6.30809
Spanish Pta.	—	160.535	130.380
Swedish Kr.	8½	8.26660	6.71179
Swiss Fr.	4	2.25079	1.83334
Greek Dr'ch	20½	97.9479	79.4576

*C$/SDR rate for Sept 29: 1.30174.

THE DOLLAR SPOT AND FORWARD

Sept 30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4925-1.5000	1.4965-1.4975	0.04c pm-0.01 dis	0.12	0.01-0.06dis	−0.12
Ireland†	1.1805-1.1860	1.1850-1.1860	0.31-0.26c pm	2.89	0.85-0.77 pm	2.73
Canada	1.2315-1.2330	1.2325-1.2330	0.06-0.02c pm	0.34	0.12-0.09 pm	0.34
Nethlnd.	2.9385-2.9490	2.9395-2.9445	1.10-0.95c pm	3.54	2.85-2.75 pm	3.38
Belgium	53.35-53.51	53.38-53.40	1½c pm-par	0.17	par-3 dis	−0.11
Denmark	9.4845-9.5300	9.4875-9.5025	0.40ore pm-par	0.25	par-1½ dis	−0.16
W. Ger.	2.6260-2.6420	2.6305-2.6315	0.97-0.92pf pm	3.86	2.60-2.55 pm	3.92
Portugal	122.50-124.20	123.90-124.20	110-280c dis	−18.87	450-800dis	−20.16
Spain	151.75-152.10	151.85-151.95	155-190c dis	−13.61	480-550dis	−13.55
Italy	1592-1599	1593-1594	9½-10½lire dis	−7.59	32-33½ dis	−8.18
Norway	7.3300-7.3600	7.3375-7.3425	2.15-2.45ore dis	−3.76	6.00-6.50dis	−3.40
France	7.9850-8.0300	7.9900-7.9950	2.20-2.35c dis	−3.41	8.90-9.90dis	−4.83
Sweden	7.7850-7.8225	7.8100-7.8150	1.60-1.70ore dis	−2.53	4.80-5.10dis	−2.58
Japan	235.30-236.40	235.85-235.95	0.40-0.30y pm	1.78	1.06-0.96 pm	1.71
Austria	18.49½-18.56	18.50-18.51	5.60-5.40gro pm	3.56	19-14 pm	3.24
Switz.	2.1170-2.1300	2.1200-2.1210	1.05-0.97c pm	5.85	2.86-2.81 pm	5.34

Belgian rate is for convertible francs. Financial franc 54.20-54.26. † UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

EXCHANGE CROSS RATES

Sept. 30	Pound St'rling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.497	3.940	353.0	11.965	3.178	4.405	2385.	1.845	79.95
U.S. Dollar	0.668	1.	2.632	235.8	7.993	2.123	2.943	1593.	1.233	53.41
Deutschemark	0.254	0.380	1.	89.59	3.037	0.806	1.118	605.3	0.468	20.29
Japanese Yen 1,000	2.833	4.241	11.16	1000.	33.90	9.001	12.48	6756.	5.226	226.5
French Franc 10	0.836	1.251	3.293	295.0	10.	2.656	3.682	1993.	1.542	66.82
Swiss Franc	0.315	0.471	1.240	111.1	3.766	1.	1.386	750.6	0.580	25.16
Dutch Guilder	0.227	0.340	0.895	80.14	2.716	0.721	1.	541.4	0.418	18.15
Italian Lira 1,000	0.419	0.628	1.653	148.0	5.017	1.332	1.847	1000.	0.773	33.52
Canadian Dollar	0.542	0.812	2.136	191.4	6.487	1.725	2.388	1293.	1.	43.35
Belgian Franc 100	1.251	1.878	4.928	441.5	14.97	3.974	5.519	2983.	2.307	100.

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
Dec	90.36	90.37	90.27	90.34
March	90.01	90.01	89.95	89.91
June	89.80	89.80	89.74	89.64
Sept	89.51	89.51	89.50	89.39
Dec	89.29	89.30	89.27	89.14

Volume 1,619 (1,605)
Previous day's open int. 5,664 (6,413)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
Dec	90.75	90.76	90.65	90.69
March	90.45	90.46	90.40	90.40
June	90.22	90.23	90.15	90.15
Sept	90.00	—	—	89.95
Dec	89.98	—	—	89.91

Volume 531 (576)
Previous day's open int. 4,702 (4,671)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
Dec	107-11	107-13	107-01	107-06
March	106-30	106-30	106-25	106-27
June	106-14	—	—	106-13
Sept	105-30	—	—	105-30
Dec	105-16	—	—	105-20

Volume 1,329 (1,843)
Previous day's open int. 2,945 (3,721)

STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec	1.4985	1.4975	1.4935	1.5004
March	—	—	—	1.5020
June	1.4970	1.4985	1.4970	—

Volume 158 (65)
Previous day's open int. 909 (907)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
Dec	0.3828	0.3832	0.3817	0.3814
March	0.3862	0.3865	0.3857	0.3848
June	0.3888	0.3888	0.3877	—

Volume 73 (21)
Previous day's open int. 449 (451)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
Dec	0.4763	0.4768	0.4745	0.4740
March	0.4818	0.4818	0.4815	—
June	0.4845	0.4845	0.4845	—

Volume 15 (27)
Previous day's open int. 115 (136)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
Dec	0.4265	0.4272	0.4257	0.4254
March	0.4298	0.4298	0.4287	0.4284
June	0.4333	0.4333	0.4305	—

Volume 26 (16)
Previous day's open int. 222 (215)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	72-23	72-28	72-18	72-17
March	72-05	72-11	72-01	71-31
June	71-23	71-29	71-19	71-17
Sept	71-11	71-14	71-07	71-05
Dec	71-01	71-04	70-28	70-27
March	70-26	70-28	70-21	70-19
June	70-18	70-21	70-14	70-12
Sept	70-12	70-15	70-08	70-06
Dec	—	—	—	—
March	—	—	—	—
June	—	—	—	—

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	91.12	91.16	91.05	91.04
March	90.72	90.73	90.65	90.64
June	90.46	90.47	90.42	90.39
Sept	90.23	90.23	90.16	90.13
Dec	90.02	90.02	89.93	89.96
March	89.82	89.82	89.82	89.77
June	89.62	89.62	89.62	89.58
Sept	89.43	89.43	—	89.39

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	90.51	90.53	90.43	90.44
March	90.10	90.11	90.04	90.03
June	89.80	89.81	89.73	89.70
Sept	89.53	89.53	89.46	89.42
Dec	—	—	—	—
March	—	—	—	—

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
Dec	90.09	90.11	90.01	90.00
March	89.72	89.74	89.65	89.63
June	89.46	89.46	89.35	89.35
Sept	89.19	89.19	89.12	89.12
Dec	88.92	88.92	88.86	88.88
March	88.72	—	—	88.68

STERLING (IMM) Se per £

	Close	High	Low	Prev
Dec	1.4955	1.5015	1.4925	1.4950
March	1.4995	1.5015	1.4950	1.4965
June	1.4965	1.4990	—	1.4980
Sept	1.4975	1.5000	—	1.4995
Dec	—	—	—	—
March	—	—	—	—

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Dec	68-27	69-05	68-27	68-28
March	67-28	68-05	67-28	67-31
June	67-05	67-16	67-05	67-07
Sept	66-21	—	—	66-22
Dec	66-07	66-14	66-07	66-09
March	—	—	—	65-19
June	65-17	65-11	65-09	65-11
Sept	—	—	—	—

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Sept. 30	change	NEW YORK	Sept 30	change
Base rates	9½	Unch'd	Prime rates	11	Unch'd
7 day interbank	9⅝	−⅝	Federal funds	10¼	+1⅛
3 mth interbank	9⅜	+⅛	3 Mth. Treasury Bills	8.75	−0.15
Treasury Bill Tender	8.9580	−0.0045	6 Mth. Treasury Bills	8.86	−0.05
Band 1 Bills	9¾	Unch'd	3 Mth. CD	9.29	−0.05
Band 2 Bills	9⅜	Unch'd	FRANKFURT		
Band 3 Bills	9⅝	Unch'd	Lombard	5.5	Unch'd
3 Mth. Treasury Bills	9⅛	−⅛	One mth. interbank	5.775	+0.125
1 Mth. Bank Bills	9⅜	Unch'd	Three month	6.175	+0.325
3 Mth. Bank Bills	9⅛	−⅛	PARIS		
TOKYO			Intervention rate	12.25	Unch'd
One month Bills	6.78125	−0.03125	One mth. interbank	12.50	+0.125
Three month Bills	6.64375	+5.0625	Three month	12.5625	+0.125
BRUSSELS			MILAN		
One month	9¾	+1/16	One month	17⅜	Unch'd
Three month	9⅝	+⅛	Three month	17⅞	Unch'd
AMSTERDAM			DUBLIN		
One month	6⅝	Unch'd	One month	12⅝	Unch'd
Three month	6⅝	Unch'd	Three month	12⅛	+⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. Band 4 bills 9⅝%.

MONEY MARKETS

Setback for interest rates

Hopes of lower interest rates suffered something of a setback last week, although this was probably the result of shortlived domestic events in the U.S. and Britain. The week began on a confident note, following better than expected U.S. M1 money supply figures, but matters then became very confused as the market looked for an easing of Federal Reserve monetary policy, but had to contend with extremely volatile movements in the Federal funds overnight rate. On Wednesday the Fed funds rate touched a low of 7½ per cent, which was reported to be the result of a computer breakdown at a major east coast bank, and there was little hope that this really signalled a significant easing of the Fed's monetary stance.

This was confirmed on Thursday, when the Federal funds rate finished at 10½ per cent, largely because of pressure caused by demand for funds at the end of the quarter, with no sign of any easing of rates despite intervention by the Federal Reserve.

The Fed tried to keep rates steady throughout the week without too much success, while the London money market grew increasingly restless about a fall in UK clearing bank base rates. A reduction to 9 per cent in base rates has been expected for some time, but may now have to wait until events become clearer on the other side of the Atlantic. A major constraint on lower U.S. interest rates is likely to remain the budget deficit however, and the need for the Treasury to keep funding.

At the same time the Bank of England may be concerned about the high level of private sector bank lending, although this seems to have supported the better than expected economic recovery, according to the latest quarterly bulletin.

LONDON MONEY RATES

Sept. 30 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ◆	Eligible Bank Bills ◆	Fine Trade Bills ◆
Overnight	—	8-10⅛	9¾-10	—	—	9¾-10¼	8-9⅝	—	—	—
2 days notice	—	—	9¾-10	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	10-10¼	—	—	—	—
7 days notice	—	9¾-10	9¾-10	—	—	—	9⅛-9¾	—	—	—
One month	9¾-9⅝	9⅞-9½	9⅝	10¼-9⅞	9⅝	9⅞-10	9⅝	9 1/16	9 1/16	10 1/16
Two months	9⅝-9½	9 11/16-9 9/16	9⅝	10⅛-9¾	9⅝	10	9	9 1/16	9 5/32-9 1/32	9⅝
Three months	9½-9⅜	9 9/16-9 7/16	9⅝	10⅛-9¾	9 7/16	10	9⅞-9	9	9 1/16-9 5/32	9⅝
Six months	9 7/16-9 5/16	9½-9⅜	9⅝	9⅞-9	9 5/16	—	—	—	9 1/16	9½
Nine months	9 7/16-9 5/16	9½-9⅜	9¾	10-9⅝	9 11/16	—	—	—	—	—
One year	9½-9 11/16	9⅞-10	9 11/16-9 11/16	10-9⅝	9½	—	—	—	—	—
Two years	—	—	10¼-10½	—	—	—	—	—	—	—

ECGD Fixed Rate Export Scheme IV. Average Rate for interest period August 2 to September 6 1983 (inclusive) 9.930 per cent.

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates nominally three years 10⅝ per cent four years 10¾-11 per cent; five years 10⅞-11⅛ per cent. ◆ Bank bill rates in table are buying rates for prime paper. Buying rates for four months' bank bills 9 3/32-9⅛ per cent; four months' trade bills 9 11/16 per cent.

Approximate selling rate for one-month Treasury bills 9⅛ per cent; two months 9 3/32 per cent and three months 8⅞ per cent. Approximate selling rate for one month bank bills 9⅛ per cent; two months 9⅛-9 3/32 per cent and three months 9 1/32 per cent; trade bills 9 11/32 per cent; two months 9 11/32 per cent and three months 9 11/32 per cent.

Finance Houses Base Rate (published by the Finance Houses Association) 10 per cent from October 1 1983. London and Scottish Clearing Bank Rates for lending 9½ per cent. London Deposit Rates for sums at seven days' notice 6 per cent.

Treasury Bills: Average tender rates of discount 8.9580 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held under one month 9¾ per cent; one-three months 9¾ per cent; three-six months 9¾ per cent; six-12 months 10 per cent. Under £100,000 9¾ per cent from September 29. Deposits held under Series 4-5 10 per cent. The rates for all deposits withdrawn for cash 6 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES

(Market closing rates)

Sept. 30	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	9¾-10	9¾-9⅞	9⅝-9¾	9 11/16-9 13/16	9 11/16-9 13/16	9 11/16-9 13/16
U.S. Dollar	9¼-9½	9⅜-9⅝	9¼-9½	9⅜-9⅝	9 11/16-9 15/16	9 15/16-10 3/16
Can. Dollar	9¼-9¾	9-9½	9 3/16-9 7/16	9 7/16-9 11/16	9⅜-9⅝	9 15/16-10 3/16
D. Guilder	5¾-6	5¼-5½	5 11/16-5 15/16	5 13/16-6 1/16	5¾-6⅛	5 15/16-6 5/16
S. Franc	¼-1	2-2¼	3 5/16-3 9/16	4⅛-4⅜	4⅛-4⅜	4 3/16-4⅞
Deutschm'rk	5⅛-5⅜	5⅛-5⅜	5 11/16-5 15/16	5¾-5⅞	5⅞-6	6 1/16-6 5/16
Fr'nch Franc	13⅝-13¼	12⅞-13⅝	12½-12¾	14⅛-14⅜	15 1/16-15 5/16	15⅛-15⅜
Italian Lira	15¾-16¾	15-17⅛	16½-17⅛	17½-18½	18-18½	18¼-19
Belg. Franc.						
Conv.	7-7½	8-8½	9¼-9¾	9⅝-10	9¾-10¼	10-10½
Fin.	7-7¼	8-8¼	9⅞-9⅝	9¼-9½	9⅝-10	10-10¼
Yen	6¾-6⅞	6¾-6⅞	6⅝-6¾	6 11/16-6 13/16	6⅛-6⅜	6¾-6⅞
D. Krone	9⅜-9⅞	9¾-9¼	9⅛-9⅝	9⅝-10⅛	10-10¼	10⅜-10⅞
Asia $ (Sing.)	9⅜-9½	9⅜-9½	9⅜-9½	9½-9⅝	9 13/16-9 15/16	10 1/16-10 3/16

FT LONDON INTERBANK FIXING

11.00 a.m. SEPTEMBER 30

3 month U.S. dollars		6 month U.S. dollars	
bid 9 1/2	offer 9 5/8	bid 9 11/16	offer 9 13/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	11
Fed funds (lunch-time)	10⅛-10¼
Treasury bills (13-week)	8.75
Treasury bills (26-week)	8.88

GERMANY

Lombard	5.5
Overnight rate	5.55
One month	5.775
Three months	6.175
Six months	6.25

FRANCE

Intervention rate	12.25
Overnight rate	12.625
One month	12.50
Three months	12.5625
Six months	12.6875

JAPAN

Discount rate	5.5
Call (unconditional)	6.78125
Bill discount (3-month)	6.84375

SWITZERLAND

Discount rate	4
Overnight rate	1-2
One month	3 11/16-3 13/16
Three months	4-4⅛

NETHERLANDS

Discount rate	5
Overnight rate	5⅝-5⅞
One month	5⅞-6
Three months	6⅛-6¼
Six months	6⅛-6⅜

$ CERTIFICATES OF DEPOSIT

One month	9.2-9.3
Three months	9.25-9.35
Six months	9.4-9.5
One year	9.7-9.8

LONG TERM EURO $

Two years	10⅞-11⅛
Three years	11⅛-11⅜
Four years	11½-11¾
Five years	11¾-12

SDR LINKED DEPOSITS

One month	8 11/16-8 13/16
Three months	8 13/16-9 1/16
Six months	9 1/16-9 3/16
One year	9 5/16-9 11/16

ECU LINKED DEPOSITS

One month	8⅝-8
Three months	8¾-9 1/16
Six months	8⅞-9⅛
One year	9 11/16-10 1/16

BASE LENDING RATES

A.B.N. Bank	9½%	■ Hambros Bank	9½%
Al Baraka International	9½%	Heritable & Gen. Trust	9½%
Allied Irish Bank	9½%	■ Hill Samuel	†9½%
Amro Bank	9½%	C. Hoare & Co.	†9½%
Henry Ansbacher	9½%	Hongkong & Shanghai	9½%
Arbuthnot Latham	9½%	Kingsnorth Trust Ltd.	11%
Armco Trust Ltd.	9½%	Knowsley & Co. Ltd.	10%
Associates Cap. Corp.	9½%	Lloyds Bank	9½%
Banco de Bilbao	9½%	Mallinhall Limited	9½%
Bank Hapoalim BM	9½%	Edward Manson & Co.	10½%
BCCI	9½%	Meghraj and Sons Ltd.	9½%
Bank of Ireland	9½%	Midland Bank	9½%
Bank Leumi (UK) plc	9½%	■ Morgan Grenfell	9½%
Bank of Cyprus	9½%	National Bk. of Kuwait	9½%
Bank of Scotland Ω	9½%	National Girobank	9½%
Banque Belge Ltd.	9½%	National Westminster	9½%
Banque du Rhone	10½%	Norwich Gen. Tst.	9½%
Barclays Bank	9½%	R. Raphael & Sons	9½%
Beneficial Trust Ltd.	10½%	P. S. Refson & Co.	9½%
Bremar Holdings Ltd.	9½%	Roxburghe Guarantee	10%
Brit. Bank of Mid. East	9½%	Royal Trust Co. Canada	9½%
■ Brown Shipley	10%	Standard Chartered	9½%
CL Bank Nederland	9½%	Trade Dev. Bank	9½%
Canada Perm't Trust	10½%	TCB	9½%
Castle Court Trust Ltd.	10%	Trustee Savings Bank	9½%
Cayzer Ltd.	9½%	United Bank of Kuwait	9½%
Cedar Holdings	10%	United Mizrahi Bank	9½%
■ Charterhouse Japhet	9½%	Volkskas Intnl. Ltd.	9½%
Choulartons	10½%	Westpac Banking Corp.	9½%
Citibank Savings	¶10½%	Whiteaway Laidlaw	10%
Clydesdale Bank	9½%	Williams & Glyn's	9½%
C. E. Coates	10%	Wintrust Secs. Ltd.	9½%
Comm. Bk. of N. East	9½%	Yorkshire Bank	9½%
Consolidated Credits	9½%		
Co-operative Bank	*9½%		
The Cyprus Popular Bk.	9½%		
Dunbar & Co. Ltd.	9½%		
Duncan Lawrie	9½%		
E. T. Trust	10%		
Exeter Trust Ltd.	10½%		
First Nat. Fin. Corp.	11½%		
First Nat. Secs. Ltd.	11½%		
Robert Fraser	10%		
Grindlays Bank	‡9½%		
■ Guinness Mahon	9½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 6%. 1-month 6.25%. Short-term £8,000/12-month 8.6%.
† 7-day deposits on sums of: under £10,000 6%. £10,000 up to £50,000 7%. £50,000 and over 8%.
‡ Call deposits £1,000 and over 6%.
§ 21-day deposits over £1,000 7%.
¶ Demand deposits 6%.
¶ Mortgage base rate.
Ω Money Market Cheque Account—9.05%. Effective annual rate—9.43%.

هكذا من الأصل

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS-Cont.

[illegible]

Finance, Land, etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—continued

Australians

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		♥ACM 20c	17	—	—	—	—
—		Allstate Explo NL	48	—	—	—	—
—		♥Australis Mng. NL	32	—	—	—	—
—		Balmoral Resources	20	—	—	—	—
—		♥Black Hill Mins	51	—	—	—	—
—		♥Bond Corp	80	—	q010c	2.3	7.5
Nov.	Apr.	♥Bougainville 1 Kina	154	11.3	Q03 4Sc	1.2	1.4
May	Nov.	♥CRA 50c	343	11.3	t03c	—	0.5
—		♥Carr Boyd 20c	79	—	—	—	—
—		♥Central Pacific	31	—	—	—	—
—		♥Cons Gold Mng Areas	3¾	—	—	—	—
—		♥Coopers Res NL	11	—	—	—	—
—		♥Crusader Oil	220	—	—	—	—
—		♥Cultus Pac NL	13	—	—	—	—

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible]

payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or other official estimates for 1982-83. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

			IRISH		
			Nat. 9¾% 84/89	£87⅝	.....
			Fin. 13% 97/02	£95½	.....
Albany Inv. 20p	64xd	.....	Alliance Gas	88	.....
Bdg'wtr. Est. 50p	285	.....	Arnott	205	.....
Craig & Rose £1	£10½	.....	Carroll (P.J.)	105	.....
Finlay Pkg. 5p	36	+1	Concrete Prods.	75	.....
Graig Ship. £1	5½xd	.....	Heiton (Hldgs.)	17	.....
Higsons Brew	88	+1	Irish Ropes	33	.....
Holt (Jos) 25p	410	.....	Jacob	83	−4
I.O.M. Stm £1	157	.....	T.M.G.	68	.....
Pearce (C.H.)	475	.....	Unidare	74	.....

OPTIONS

3-month Call Rates

Industrials		House of Fraser	20	Utd. Drapery	22
Allied-Lyons	15	I.C.I.	45	Vickers	12
BOC Grp.	20	"Imps"	11	Woolworth Hld.	30
B.S.R.	28	I.C.L.	7		
Babcock	35	Cadbroke	22	**Property**	
Barclays Bank	45	Legal & Gen.	45	Brit. Land	8½
Beecham	32	Lex Service	32	Cap. Counties	14
Blue Circle	45	Lloyds Bank	44	Land Sec.	28
Boots	16	"Lofs"	4	MEPC	20
Bowaters	22	London Brick	10	Peachey	16
Brit. Aerospace	19	Lucas Inds.	15	Samuel Props.	11
B.A.T.	14	"Mams"	14	Town & City	4
Brown (J.)	3½	Mrks. & Spncr	20		
Burton Ord.	35	Midland Bank	40	**Oils**	
Cadburys	11	N.E.I.	10	Brit. Petroleum	38
Courtaulds	10	Nat. West. Bank	55	Burmah Oil	17
Debenhams	14	P & O Dfd.	21	Charterhall	9
Distillers	20	Plessey	19	KCA	6
Dunlop	6	Racal Elect.	20	Premier	6
Eagle Star	45	R.H.M.	7	Shell	55
F.N.F.C.	5½	Rank Org. Ord.	28	Tricentrol	22
Gen. Accident	42	Reed Intnl.	32	Ultramar	65
Gen Electric	18	Sears	8		
Glaxo	75	T.I.	15	**Mines**	
Grand Met.	30	Tesco	17		
G.U.S. 'A'	50	Thorn EMI	55	Charter Cons.	28
Guardian	45	Trusthouse	16	Cons. Gold	58
G.K.N.	16	Turner & Newall	7	Lonrho	9
Hawker Sidd	20	Unilever	70	Rio T. Zinc	62

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هكذا من الأصل

Gulf Government Investment

States taking more control

THE PREDICTED budget deficits of the Arabian oil states imply that in the rest of this year and in 1984 governments will have to draw on their financial reserves. In Saudi Arabia, the foreign assets of which are discussed elsewhere the April budget assumed that $10bn would be taken from reserves. At the time it was thought that in practice the drawdown would have to be much bigger, though since then the Government has cut its spending and oil exports have risen. So far drawings have not been more than $3bn to $4bn.

In Kuwait money has been taken out of the General Reserve, though the rise in the value of the assets in the reserve this year disguises the fact. Qatar's reserves seem not to have been drawn upon, though the state may have been spending the dividends it has earned. In any event the state's assets are not being significantly increased.

In the last of the major Arabian oil exporters, Abu Dhabi, it is not yet clear whether the state will have to draw on its reserves or not. The emirate's (as opposed to the Federation's) budget shows a deficit of some $750m, though it is quite likely that several factors will combine to remedy this situation. These are the stretching of projects, the possibility of an increase in oil exports and savings of current costs, such as rents, caused by the forced redundancy of large numbers of government employees. If at the end of the calendar year, which is Abu Dhabi's financial year, the Government sees that it has a deficit, an international borrowing or a drawing on reserves will be made.

The sections below describe the organisation of the reserves of Kuwait, Qatar and Abu Dhabi and discuss the investment policies of the states. In all three countries the finance ministries are undertaking more of their own investment work.

Ministry of finance reserves are quite separate from the much smaller amounts of foreign currencies held by the central banks.

Michael Field

KUWAIT FINANCE MINISTRY

THE TOTAL reserves of the Kuwaiti Finance Ministry at present run to between $80bn-$90bn. This sum includes a few domestic items, such as the capital of Kuwait Airways and the Kuwait Fund for Arab Economic Development, and large amounts of Finance Ministry (as opposed to Kuwait Fund) inter-Arab loans. Most of the loans are at low rates of interest and are quite likely not to be repaid.

It was by including Kuwaiti items and inter-Arab loans, as well as more commercial capital participations in Arab companies and real estate ventures, that the former Kuwaiti Finance Minister, Abdel-Rahman Atiqi was often able to claim that impressive proportions of his state's reserves were invested in the Arab world. His successor, Abdlatif al Hamad, who handed his resignation to the Ruler in July, seemed to be less interested in the reserves' pan-Arab credentials.

Replaced

The important, commercial, part of the Kuwaiti reserve runs to about $60bn. This figure is divided between the General Reserve (which is thought to have the slightly smaller share) and the Reserve Fund for the Future Generations. The latter fund was established in the mid-1970s. It may not be drawn upon for a quarter of a century and receives every year all of its internally generated income plus 10 per cent of state revenues from all sources, including the General Reserve.

Exactly which assets are in the Fund for the Future Generations and which in the General Reserve has never been published, but it is assumed that the Fund for the Future Generations has most of the Government's best known foreign assets, such as its large shareholding in Daimler Benz. Although the Fund for the Future Generations may never be reduced in size, assets in the Fund are sold from time to time. If they are not immediately replaced by new purchases, investments are moved into the Fund from the General Reserve.

About two-thirds of the Finance Ministry's commercial reserves are managed by the Ministry's arm in London, the Kuwait Investment Office. This institution now has a staff of 70.

The remaining assets are managed by some 20 international banks, some of which run portfolios worth just a few millions of dollars. Most of the investments in these portfolios are equity shares, though there is some property.

In the U.S. the Ministry has property portfolios with Chase Manhattan, on the East Coast, and Bank of America, on the West Coast. These have not expanded much since they were started, 20 years ago in the case of the Chase portfolio. The KIO itself has more property in the U.S. than the Chase and Bank of America portfolios combined — though much of it is held through nominees to disguise its ultimate ownership.

The KIO is the institution that is responsible for most of the Ministry's real estate and direct investments. The Office owns the St. Martin's Property Corporation, which in turn has been used to buy major pieces of British real estate.

Important purchases in the past three years have been an 80-acre site outside Swindon, which the office intends to develop as a high technology science park; and the Proprietors of Hays Wharf.

Officially the KIO has completely international investment responsibilities, but because it has been in London since 1964 and originally was used as the manager of an almost entirely British portfolio, it still has more British assets than it would have if it had been established recently and had planned a balanced investment policy from scratch. About 20 per cent of its total holdings are in British stocks, property and direct investments.

It is the policy of the KIO to build up strategic holdings in some of the companies in which it invests. At one point last year there were some 50 British quoted companies in which the Office had holdings of above the declarable 5 per cent mark, and in many of these it was intended that holdings should be expanded to over 10 per cent.

The significance of this level is that it puts the shareholder in a position where he can block a takeover bid or push up the bid price. In the event of a takeover bid the law is that if the holders of 90 per cent of the shares in a company not already owned by the bidder agree to accept the bid, the owners of the remaining 10 per cent must accept as well.

The KIO used its strategic stakes to stand out for a higher price in the Decca, Sun Life and Anderson Strathclyde takeover battles. But it makes it a policy only to sell at the same bid price that other shareholders are given. It will not sell secretly to a bidder before a takeover bid is made public.

Given the size of its holdings in many companies, the KIO is notably reluctant to become involved in management decisions or even make much personal contact with directors. It hardly ever votes and has avoided making company visits.

Personal contact

The acquisition of large shareholdings is a natural part of the KIO's long-term investment strategy. It has been suggested that these holdings and other KIO shares are seldom traded, but this is not the case.

Although it thinks long-term, and used to give the impression of being an extremely cautious and conservative investor in order to allay public fears of Arab money in the years after the first oil crisis, the KIO has always been an active trader. Its strategic holdings are traded at the margin and its other, smaller holdings are traded in exactly the same way that other professional market participants would trade them.

At some point in the next year or so the KIO will be transferred from the Ministry of Finance to the new Kuwait Investment Authority. The idea for the KIA has been circulating in Kuwait for seven or eight years and has appealed particularly to the Kuwaiti Parliament, which believes that it will have more control over the operations of an authority in Kuwait than it does over the Finance Ministry and its office in London.

A definite decision to establish the KIA was taken several months ago and it has already been decided that its head will be Dr Fahd al Rashid, who has been the Dean of the Faculty of Commerce and Political Science at Kuwait University.

There is some question as to what exactly the KIO's status will be under the new regime, though it is intended that its general manager will be on the board of the Authority. The Authority may use the Office as its main investment agency or it may transfer much of the Office's work back to Kuwait.

ABU DHABI INVESTMENT AUTHORITY

UNTIL SEVEN years ago Abu Dhabi had an investment board, which supervised its Finance Department's reserve in the same way that the QIB still operates in Qatar. (It should be noted that state investments in the UAE are done strictly on an emirate by emirate basis: there is no such thing as a Federal reserve.)

In 1976, the Government established the Abu Dhabi Investment Authority (ADIA), whose directors are now: Shaikh Khalifa bin Zayed, the chairman of the board, who is Abu Dhabi's heir apparent; Ahmed Suwaidi, the deputy chairman, who used to supervise Abu Dhabi's foreign policy; Shaikh Surour bin Mohammad, the chairman of the Central Bank; Shaikh Tahnoun bin Mohammad, the Governor of Al Ain; Mana Otaiba, the Federal and Abu Dhabi Minister of Petroleum; Adnan Pachachi; and Dr Hassan Abbas Zaki.

Beneath the board is an Investment Committee, composed of some of the board members and the directors of ADIA departments, which meets once a week to arrange the implementation of board policy and monitor the work of the Authority.

The total funds under ADIA's control are thought to be about $22bn, a figure which includes commercial investments in the Arab world but excludes inter-Arab loans.

Within ADIA there are five departments: finance and administration, which is concerned with money market operations and loans to such institutions as the IMF; Arab investments; commodities; property; and equities and bonds—a department which is divided internally between three geographical areas.

Together the departments manage rather over half of ADIA's assets, and the proportion is gradually expanding. The Authority adjusts its working days and hours to fit in with the European and American markets; it works on Fridays and is closed on Saturdays and Sundays.

Assets not under the direct control of the five departments are assigned to a number of portfolio managers, most of whom operate funds containing more than one currency. One of the portfolios, which contains a part of Abu Dhabi's sterling assets (but no other currencies), is managed by the ADIA office in London. This office is also used for liaison purposes and for providing ADIA with information.

Periodically ADIA also entrusts funds to the Abu Dhabi Investment Company, which is 60 per cent-owned by the Authority. The work done by ADIC, which is a much less ambitious institution than any of the three big Kuwaiti investment companies, normally involves bond purchases.

Declarable

ADIA's approach to investment falls somewhere in between Kuwait's and Qatar's. It follows Qatar in not taking large stakes in companies. At present it has no holding of 5 per cent or more in British or American companies, though some years ago it did have declarable holdings in several U.S. airlines.

The Authority feels that while large stakes put an investor in a strategic position in the event of a takeover bid, they are difficult to sell if a company starts to do badly.

ADIA's holdings of real estate are small. By far its biggest asset is still the 44 per cent stake in the Commercial Union building in the City of London. This was bought for £36m in 1974 and was one of the first famous Arab investments after the original oil crisis.

QATAR INVESTMENT BOARD

QATAR'S FINANCIAL reserves are controlled by the state's Investment Board. The members of this are Shaikh Abdel-Aziz bin Khalifa, the Minister of Finance and Petroleum and eldest son of the Ruler; Abdel-Kader Qadi, who is the Director of the Finance Department in Shaikh Abdel-Aziz's Ministry; Dr Hassan Kamal, the state's long-serving legal adviser; and Isa Kawari, the Minister of Information, who is much involved in the Ruler's office. The board is assisted by two foreign advisers, who were appointed about 18 months ago.

The board deliberates once a quarter and passes its instructions through the Investment Division of the Finance Department to the foreign portfolio managers. The Investment Division, under Abdullah Shawabkeh, the Controller of Investments, acts as the board's secretariat and manages the cash of the Ministry of Finance on the money markets.

The assets of the Ministry, excluding inter-Arab loans and investments, are about $8bn. They are spread between 14 portfolios, divided on a currency basis, under the control of 12 managers. Barings manages a fairly small sterling portfolio and Hambros a dollar portfolio. Gulf and Occidental, a Geneva bank owned partly by the Qatar National Bank and the Abu Dhabi Investment Authority, runs a dollar fund and a Swiss franc fund.

In addition to these there are a second Swiss franc and a third dollar portfolio, four yen portfolios, a Canadian dollar portfolio which is in the process of being wound down, two D-mark portfolios, and a small Dutch portfolio of short-term treasury investments which comes under the control of one of the German managers. The Ministry used also to have a French franc portfolio, but this has now been closed.

The investments held in these funds are virtually all quoted, tradable securities — equities and bonds. Qatar holds very little real estate. The Ministry's only significant property investment is some land on the Champs Elysées, which it acquired when it found itself as one of the creditors of Intra Bank when that institution crashed in 1966.

The Investment Board is much more cautious than the Kuwait Investment Office in the instructions it gives its managers. Its policy is not to trade actively in assets in the reserve because it does not want to appear to be speculating. Nor is it interested in building up strategic stakes in companies. Qatar does not have a holding of over 5 per cent in any British business — though this is as much a factor of the small size of its holdings as of the Board's policy.

Maturities

Except on these very broad matters the Board has traditionally allowed its portfolio managers considerable latitude in how they approach their work. Their main specific instructions have concerned sector weightings.

Recently there has been some move towards a closer, more formal monitoring of the managers' performance, though as yet the Board has not worked out formal procedures for this.

In London, the Ministry maintains the Qatar Investment Office, which was established in 1978. This is quite unlike the KIO in that it does not manage funds or have any other executive role. Its main purposes are to act as a representative office, provide a flow of strategic information for the Ministry and prepare reports on whatever the Board requests.

FINANCIAL TIMES SURVEY

In spite of the fall in oil revenues and the plunge in share values on the Gulf stock exchanges Arab banks remain reasonably prosperous. Arabian governments are playing a bigger role in managing their reserves. In the private sector the emphasis is on providing services for individual investors.

Arab Banking, Finance and Investment

By MICHAEL FIELD

BANKERS IN Saudi Arabia and the Gulf states are surprised by how well their business is holding up in the oil states' recession. "Maybe it's because we are fighting harder for it," said a fairly relaxed British banker in Bahrain last month. "Perhaps we look for business because we're worrying about where the next scraping of butter for the bread is coming from."

The banker's comments seem to be endorsed by the half-yearly profit figures of the major onshore and offshore banks in Bahrain. All four of the leading institutions—National Bank of Bahrain, Bank of Bahrain and Kuwait, Arab Banking Corporation and Gulf International Bank — have reported profits for January-June 1983 that are above half of last year's profits.

Unfortunately the bankers are not all confident that the remarkable prosperity of the last year will continue. The Arabian economy has recently been hit by some heavy blows, the effects of which have not yet been felt fully.

Most serious has been the decline in oil production and the $5 cut in prices agreed by the Organisation of Petroleum Exporting Countries (Opec) last March. Although production levels have now risen above their lowest, in Saudi Arabia, Abu Dhabi and Kuwait they are still under half of what they were three years ago.

Saudi Arabia and Kuwait have both published deficit budgets, which forecast drawings on reserves of $10bn and $9bn respectively, and the Saudi government early this summer was forced to tell its spending agencies to disburse only three quarters of their budget allocations.

In the United Arab Emirates the shortage of funds led to Abu Dhabi and Dubai quarrelling over the Federal budget for eight months. The budget should have been published at the start of the year but the contributions of the two states were only agreed at the beginning of September.

Dependent

Early in the year it was thought that the Federal government would go to the market for a $600m loan, but it was advised not to pursue the idea because bankers would not be confident of its ability to repay. The Federation has no oil revenues of its own and is dependent entirely on subventions from its two biggest members.

In Kuwait the fall in state revenues has coincided with the disastrous crash of the Souk al Manakh. This was the unofficial stock exchange, which was used mainly for the trading of shares in offshore, Gulf-registered companies. While there is no settlement of the $90bn mountain of post-dated cheques with which the speculation was financed, nobody can be sure how good is the credit of any Kuwaiti citizen or institution.

Kuwait, Saudi Arabia and even the lower Gulf states have also been affected more seriously than Westerners assume by the economic problems of Iraq. In 1981 and 1982, when the Government in Baghdad had the money to continue its guns and butter policy, combining fighting a war with Iran with conspicuous development at home, Iraq provided an enormous market for importers, contractors, manufacturers and haulage companies in the Gulf. It absorbed a large part of the output of many of the Arabian construction materials factories.

Now that the country has had abruptly to control its spending, many Gulf manufacturers are finding it difficult to break even and a few contractors have gone bankrupt. There are court cases pending between the Iraqi government and a number of its Gulf suppliers.

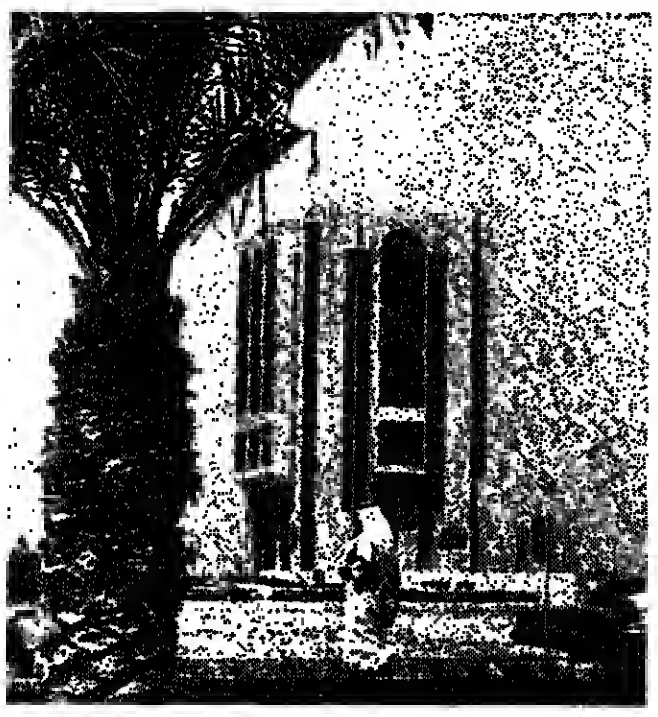
The effects on the Arabian banks of this series of problems have been both good and bad.

On the bad side there has been a decline in demand for overdrafts by small- and medium-sized businessmen.

Traditionally, Arabian merchants have financed their day-to-day operational needs and long-term capital requirements with large overdrafts which they have perpetually renewed. The use of this form of borrowing rather than loans has helped them to disguise from their bankers exactly what they are doing with their credit. Now they feel that there are too few opportunities for them to be able to make use of the money and they are repaying it.

For Bahraini banks the problem has been exacerbated by the Saudi Arabian authorities' enforcement of a withholding tax on interest paid by Saudi companies to foreign lenders. The Saudi Arabian Monetary Agency is also restricting the participation of foreign banks in syndications within the Kingdom.

By contrast, the reduction in government spending has led to an increase in the demand for credit by contractors who have not been paid on time by state agencies. The loan requirements of Arabian contractors are much bigger than they were five years ago simply because these companies are now carrying out bigger projects and have finance departments which are sophisticated enough to present a case for a large loan to an international bank.



The new headquarters of the Gulf International Bank in Bahrain. So far this year the big offshore banks have maintained their profits

Much of the demand for contractor finance has been met by small club syndications, involving just five or six banks.

Another expanding group of customers has been car importers. In the past the more progressive companies gave credit to their sub-dealers and the sub-dealers in turn gave credit to the buying public—but much of the credit in both cases was financed internally. Now all companies are finding they have to give credit. The sums given have to be more generous and the importers and sub-dealers are not making big enough profits to enable them to finance the credit without recourse to banks.

On a bigger and more formal scale, governments and government institutions which previously might have been self-sufficient have turned to the markets. Since May there have been three major syndications in the Gulf: $300m for the Sultanate of Oman, $500m for the expansion of the ADGAS natural gas liquids plant on Das Island off Abu Dhabi, and $90m for the Gulf Aluminium Rolling Mill in Bahrain.

In the background, bankers say, there is a steady flow of business from the sectors that are still prospering. Specialist contracting and work related to the development and operation of oil fields are businesses that seem to be more or less immune to Arabian recessions. A new thriving business is the maintenance of buildings and machinery.

So far the banks have found enough lending to sustain themselves. It is significant that none of the foreign banks with branches in the Gulf states has decided to pull out of the region.

However, all of the banks are having to think about providing new services. As Arab surpluses and international syndicated lending have declined, the emphasis has switched to generating fee income. At least, Arab bankers are talking about this even if the smaller institutions are not as well geared to this type of work as they would like to think they are.

Much the most obvious and popular area of diversification has been in the management of private capital moving to Europe and America. This money is the profits earned during the boom of the 1970s and it is remaining uncommitted in Arabia because real estate prices are falling and the best opportunities for investment in local industry and services have been taken.

The existence of this private capital has led to the creation in the past four years of a large number of Arabian investment companies. Banks have established departments for personal investment and in the past 18 months money exchangers have begun to offer investment services.

Surpluses

The emergence of private capital as a focus of business is equally important to banks outside the region. The accumulated surpluses of governments are still much bigger than private foreign assets, but the amounts are falling rather than rising and, anyway, state reserves no longer offer much of an opportunity for new business.

Likewise there is not much scope for foreign banks to lend to the region. Private sector demand for credit has fallen and the governments of the main Arabian oil producers are nowhere near having to borrow. When the smaller governments and government agencies need loans they will turn to the Bahrain market.

Seen against this background, the provision of services for private capital is one of few remaining areas of opportunity for outsiders. It is a business in which foreign banks still have the advantage of expertise.

CONTENTS

Editorial production of this survey was by Mike Smith. Photographs: Terry Kirk.

Inter-Arab Investment

Early hopes dashed

EXACTLY 10 years ago, when the first oil crisis burst upon the world, it seemed to the Arabian oil states that the most patriotic and, in the long term, most productive use of their surplus funds would be investment in other Arab countries.

Much of the money allocated for this purpose was to be given as project or programme aid by state development banks and finance ministries. A more original form of transfer was to involve commercial investment in businesses in the deficit Arab states.

Today there is a general mood of disillusionment with the commercial part of these ideas. The projects manager of a major Arabian investment company remarked in September that "most direct investments in the Arab world have turned sour."

To look first at what positive developments there have been: it was calculated earlier this year that joint Arab projects, defined as schemes in which state or private investors from more than one country own shares, now have a total equity of $40bn.

Quite a big proportion of this figure has been contributed by private Arabian investors who have put money into real estate developments. Other investments have come directly from Arab governments and from a relatively small number of part state, part public general investment companies. Chief among these are the Kuwait Foreign Trading Contracting and Investment Company (KFTCIC), the Kuwait Real Estate Investment Consortium (KREIC) and The Arab Investment Company (TAIC).

These three companies and their Arab government owners have in turn promoted a number of specialist inter-Arab investment companies. Most of these were launched in the middle or later 1970s. They include the Arab Petroleum Investment Corporation, based in Alkhobar, the Arab Mining Company (Amman), the Arab Company for Livestock Development (Damascus) and the Arab Petroleum Pipelines Company, which operates the Sumed pipeline in Egypt.

> **THE THREE MAJOR COMPANIES IN INTER-ARAB INVESTMENT**
>
> **The Kuwait Foreign Trading Contracting and Investment Company**
>
> **Assets end 1982 $2.7bn.**
>
> KFTCIC was established in the mid-1960s with a specifically Arab and African orientation. The motive behind its establishment was similar to that behind the Kuwait Fund for Arab Economic Development, the Kuwaiti aid giving agency; both institutions were born out of the Government's desire to win friends at the UN and buy off enemies in the turbulent Arab world.
>
> After some initial troubles in floating the company the government shareholding settled for a time at 80 per cent, although since the government began its share price support operation last autumn its stake has risen to 94 per cent.
>
> Much of KFTCIC's work involves managing Kuwait Finance Ministry investments in other Arab countries. These investments, which do not appear in the company's balance sheet, are officially part of the Kuwait Government's general reserve. They include a 32 per cent stake in the Kenana Sugar Company in Sudan.
>
> KFTCIC's own investments have always officially been made according to strict commercial criteria. In practice some of its participations have been suggested by, and supported by, the Kuwait Government. In these cases the company has still made an effort to see that the ventures are run on commercial lines.
>
> **The Kuwait Real Estate Investment Consortium**
>
> **Assets at end 1982 $460m.**
>
> KREIC is owned by the Ministry of Finance, the Public Institution for Social Security and a group of Kuwaiti investment and real estate companies. In effect it is 75 per cent government-owned.
>
> It was established in 1975 to invest $3.5bn of Finance Ministry reserve money in real estate projects in other Arab countries. To date it has invested $400m, made up partly of government and other clients' money (off balance sheet) and partly of its own funds.
>
> Most of the company's investments in deficit Arab states have been channelled through local subsidiaries and joint ventures, many of which now rank as some of the biggest companies in the countries concerned.
>
> **The Arab Investment Company**
>
> **Assets end June 1982 $590m.**
>
> TAIC was conceived at the time of the 1973 oil crisis. It is based in Riyadh and its shareholders include most Arab governments.
>
> Rather like KFTCIC it has tried to be strictly commercial in its approach to projects, though it has taken bigger risks than would be normal for commercial banks. Inevitably it has had to fight against attempts by shareholders to exert political influence on its investment decisions. Despite being somewhat hampered by its large number of shareholders it has been generally successful in its struggle and it is now probably more commercial in its approach than it was in its early years.
>
> Much the greatest part of TAIC's investment has been in the form of loans rather than equity.
>
> It has always seen part of its role as being the development of Arab bond and equity markets and Arab management.

Conspicuous

Taken together, the different groups of investors have had some conspicuous successes during the last ten years. Sumed has been extremely profitable. In 1981 the pipeline operated at 97 per cent of capacity and paid a cash dividend of 31.5 per cent.

The Arab Mining Company has done well by investing in two very professionally managed projects, for phosphates and potash, in Jordan, at a time when the market for the mines' products has been quite good.

In broader terms, Tunisian investments have been a success for almost all companies that have touched the country. The politics of Tunisia favour foreign investment, the country has a well-educated and reasonably prosperous labour force, and there are good managers. Most important of all, investors say, is the relative lack of bureaucracy and the fact that if they want to see a senior official about some problem they can do so quickly. Furthermore the official will act on the problem fast.

Tunisia has received more of KREIC's investment than any other Arab country and has been chosen by TAIC as the site of one of its two representative offices.

A similar good reputation applies to Jordan, where TA feels that it has done particularly well. The company has opened its second representative office there, partly to service existing clients and partly to look for new opportunities. TAIC's successful investments in the country are in the Jordan Petroleum Company, which operates the Zerqa refinery, and the Arab Jordan Investment Bank, which does the same type of business as conventional investment banks in New York.

There have also been cases of successful investments in Egypt and Morocco. Because of its size, its position next to the Arabian Peninsula and the fact that many Arabians know the country, Egypt has probably received a greater volume of Arabian investment than any other state. Private investors have put money into apartment and office blocks, hotels and, more recently small industrial and agricultural ventures, such as dairy farms and chicken projects.

It also happens that KREIC has done rather well in Egypt, mainly because it has held 100 per cent of the equity of its projects. Egypt has been the second biggest recipient of KREIC funds.

Generally Egypt and Morocco have been the scene of more frustrating or unprofitable investments than successes. The same picture, writ large, applies to Sudan and Yemen. In the minds of those involved with inter-Arab investment the whole process is associated more with failure than success.

Some of the problems have been rather specific and localised. It has been found, for example, that the Yemeni Government seems to look upon investment as just another form of development aid. In Sudan, Egypt and Morocco, among a whole range of factors deterring investors, there has been the dramatic devaluation of the currencies.

Bureaucracy

Sudan specifically is dogged by massive developmental problems which in the last ten years have proved much more difficult to solve than used to be expected. The country still suffers from very slow communications, fuel shortages, power cuts and a lack of hard currency. A Kuwaiti investor last month sadly described the country as being "doomed."

Wider problems that apply to almost the whole Arab world begin with bureaucracy and socialism, or the legacy of socialism. A senior manager on one of the big Kuwaiti companies has said that he regards bureaucracy as something that is almost impossible to cure.

"Quite honestly I cannot tell you of any country that has been successful in removing bureaucratic red tape," he said, referring to the efforts that deficit Arab states had made to attract investment. "They say that they are going to remove bureaucracy, but in real life when you go there you find that it is business as usual. You can pass the legislation but the people are still the same and they have engrained attitudes which don't change."

An equally severe problem is the public sector investment mentality of socialist countries. In economies where all important businesses are planned by the state it is very difficult for foreign investors to find worthwhile projects for their money. Not only are most opportunities legally closed, officials in the recipiant countries' governments find it difficult to define an investment opportunity.

It has been found that for a country to pass legislation guaranteeing investments against expropriation or restrictions on the repatriation of capital, as several deficit states have done, counts for little beside the disincentives created by bureaucracy and socialist planning.

Beyond these problems are some even more fundamental issues, which concern Amer Tamimi, the direct investments manager of KFTCIC. He suggests that large scale commercial investment in a developing country is not sensible without a fairly well developed physical and human infrastructure and a fairly high standard of living, which gives both government and people reasonable purchasing power.

The implications of a poorly developed infrastructure are set out in the profile of the Sudanese Kuwaiti Centre, one of KFTCIC's unsuccessful investments in Sudan.

Lack of purchasing power in recipiant countries has ruined numerous projects. The opulent Sanaa Sheraton Hotel, which has 300 bedrooms and in which KREIC is an important participant, has been a failure simply because Yemen is not rich enough to attract 300, or even 200, businessmen to Sanaa at the same time.

In Morocco, KREIC invested in a factory to build prefabricated houses on the understanding that the Government would be buying half of its output. As it turned out the government became too short of money to invest in the houses the plant was to produce, and the cost of manufacturing was too high for the plant to be able to sell to private Moroccans who might have been interested in pre-fab housing.

Most of the inter-Arab investment companies have had to reassess their operations in the last two years.

One of the smallest institutions, the Inter-Arab Investment Guarantee Corporation, which was established in 1973, seems to have decided that there is little it can do to improve its unhappy performance. In a decade of operations it has insured only $177m of investments.

Religious

It has decided that its problems derive in part from the religious sensitivity of Muslim societies, which see insurance as an impertinent attempt by man to provide against the consequences of God's will. Equally important has been the reluctance of Arab governments to be seen to be insuring against political risks in brother Arab states and the tendency of private investors to recoil from the mere contemplation of political risk. Many investors are probably unaware of the existence of IAIGC, which has modest offices on Istiqlal Street, Kuwait.

Other companies have changed the emphasis of their investment policies.

TAIC still channels all its equity investment and lending to the Arab world, but it has recently diversified into construction and trade finance, which includes loans to companies in Saudi Arabia.

KFTCIC has shifted its emphasis to generating a good income regardless of the location of its investments and to applying stricter criteria to its own investments in Arab countries. At the end of last year 47 per cent of its own direct investments were in Kuwait, 26 per cent in Africa and Asia (including Arab countries), and 22 per cent in Europe and the United States. The investments it had placed in Arab countries on behalf of the Ministry of Finance were still much bigger than its own Arab investments.

Meanwhile KREIC in 1980 decided that its investments in Arab countries had reached a point of virtual saturation—after the deployment of little more than 10 per cent of the money allocated to Arab real estate by the Kuwait Finance Ministry. Three years later it is the biggest owner of high class hotels in Tunisia. It has three major hotels already operating and expects to open a further five in 1984, which will give it 5,000 hotel beds in the country by January 1985.

Anticipating these developments, it was authorised in 1980 to invest in projects outside the Arab world. It began looking at South-East Asia, France and the United States.

None of the policy changes should imply that inter-Arab investment is now a dead issue. Amer Tamimi at KFTCIC says that Arab investments can still be profitable but that investors must simply be more careful in planning their projects and should spend more time thinking of potential snags.

Also, investors are discovering that projects in the West have their special problems too. These may be less intractable in the long term, but they prove that there is no such thing as totally trouble free, profitable investment.

In Nice, KREIC wants to redevelop a site which to be profitable must involve the demolition of a large building. As it happens the building, on the Promenade des Anglais, is listed, because it is a fine example of the 1930s Italian-influenced Fascist style.

Were Nice to have a socialist mayor a waiving of the planning regulations might be possible, and KREIC and its Kuwaiti partners in the Palais Venitien de Nice Company might quickly fulfil their dream. But unfortunately the mayor of Nice is a Gaullist and the Government in Paris is socialist.

Michael Field

THE SUDANESE KUWAITI CENTRE: AN INVESTMENT THAT WENT WRONG

IN 1974 KFTCIC and the Kuwait Finance Ministry operating through the company established a joint-venture in Khartoum to build the Sudanese Kuwaiti Centre. This is a multi-purpose complex involving office and residential accommodation and a shopping arcade, and as such it should, in theory, have been an uncomplicated type of investment compared with an industrial project.

Things turned out differently. The building should have been completed in three years, but it took seven, and costs over-ran. Then the company had to wait just over a year from the date of completion (December 1981) for the electricity grid to reach the complex. During this period it lost many of its potential tenants.

Since the complex began operations, in February this year, it has attracted some companies and individuals, but its level of occupancy is still well below 50 per cent. The marketing and operation of the complex, meanwhile, suffers badly from a lack of local property management expertise.

The venture was financed from the start mainly by foreign currency and now it cannot service its debt at all, let alone pay dividends to its shareholders. It scarcely covers its operating costs.

ARAB BANKING AND FINANCE III

Private Investment Overseas

In pursuit of *hinwis*

ARABIAN BANKERS, who have a penchant for buzz phrases, have recently discovered a new and verbose specimen: it is "high net worth individual." They have abbreviated it to HNWI and in Abu Dhabi, and possibly elsewhere, they have Arabised it to *hinwis*. In normal English the phrase means a rich person.

Rich Arabians have particularly attracted bankers' attention in the last two or three years. In this period it has been obvious that most of the opportunities for investment in the domestic economies have been taken. The prospect now is for slow growth, increased competition and reduced profits.

The result is that foreign investment is no longer regarded as being faintly unpatriotic and something to be played down in conversation. It has become fashionable, respectable and one of Arabia's growth businesses.

There has also been a change in the types of investments favoured by Arabians and in the way they are made. In the early and mid-1970s Arabians were interested mainly in fixed income investments. Much the most popular assets were deposits with London banks, bonds and small pieces of property, normally bought more as homes than investments.

Now there is a much more professional approach to investment. Investment bankers say that when they meet potential clients they often discover that the clients have already thought about the type of investment they were intending to discuss. Clients have often already established different portfolios and allocated money to them.

The most ambitious and richest have become interested in direct investments, acquisitions and venture capital operations. Often they are interested in fields about which they know little, but bankers say that they are going into them with their eyes open.

The big direct investment that is being most talked about in the Gulf at present is the purchase earlier this year of just under 25 per cent of the New York investment bank, Smith Barney, through an increase in the bank's capital. The investors were a Kuwaiti group led by the Coast Investment and Development Company, of which the managing director is Mohammad Jassim al Sagar, and a Saudi group led by the Aggad Investment Company and including members of the Zamil family.

Much of the recent Arabian investment has been undertaken corporately, which was not the case ten years ago. Then there were only three big Arabian businessmen who had foreign investment operations as part of their companies.

Two of these were Adnan Khashoggi and Shaikh Nasser Sabah, who with his father, the Kuwaiti Foreign Minister, and Dr Khalil Osman, the Sudanese vet and entrepreneur, owned Gulf International.

The other corporate investor was Suliman Olayan, who had developed a foreign investment arm to his business in the 1950s and 1960s, when he had found that he needed collateral in New York to secure American bank credit for imports from the United States.

Now numerous big families have foreign investment departments. Kutayba Alghanim, whose family made its fortune from the Kuwaiti General Motors agency, now spends most of his time supervising his group's expansion in America. His first venture into U.S. investment involved the purchase of Kirby Industries, which was done because Kutayba wanted to establish a pre-engineered steel buildings plant in Kuwait. This plant has since proved to be one of Arabia's most successful private industries.

The Jameels have a big investment office in Monte Carlo, run by Yusuf, one of the sons of Abdul-Latif, whose company owns the exclusive Saudi agency for Toyota. The family's investments have included big commitments in shipping and real estate.

Two years ago Ahmed Hamad Algosaibi, who owns the Algosaibi Hotel in Alkhobar, opened a formal foreign investment department and a subsidiary company in London. Abdel-Aziz Sulaiman, the son of the Finance Minister of King Abdel-Aziz and a part owner of the Saudi Datsun importer, Siraj Zahran, has an investment office in Geneva.

Other prominent businessmen with well-organised investment operations are Abdullah Abdel-Ghaffar Alireza and his son, Teymour, Rafiq Hariri, a Lebanese-Saudi whose company, Saudi Oger, has made a fortune from contracting in the Kingdom—building palaces in particular, and Omar Aggad, who played a major role in establishing Ahmed Juffali's Mercedes truck business in the 1960s.

Arabians who own slightly smaller fortunes than those listed above have subscribed to the shares of investment companies.

Most of the new investment companies were promoted originally by an individual and a group of friends. Typically an entrepreneur with experience of foreign investment would launch and manage the company and his friends would entrust their money to him.

The new companies are owned mainly by Kuwaitis but are registered in the lower Gulf states, because since the later 1970s the Kuwaiti authorities have refused to allow the floating of new public companies in the state. They invest as much in Arabia as abroad. Parts of their funds in 1981 and 1982 went into buying each other's shares on Kuwait's ill-fated Souk al Manakh.

On a more modest scale individuals who own capital of just a few millions of dollars are investing abroad through assigning their money to friends or relations—without arranging anything of a corporate nature. Some of the Saudi and Gulf money exchangers are now developing low-profile foreign investment operations on behalf of clients they know personally.

At the least affluent level of all, private Arabian foreign investment remains as it was in the early and mid-1970s.

From the comments of bankers it seems that the increase in sophistication in all Arabian states has been a matter that has affected the very rich élite rather than a general upgrading of investment expertise throughout society.

Michael Field

ARABIAN INVESTMENT COMPANIES

THE FOLLOWING list includes a number of the more important public and private companies based in the Arabian Peninsula and involved in foreign investment. It is made up of the more serious Gulf-registered investment companies that have been established in the last five years and had shares traded on the Souk al Manakh.

The list does not include the Three Ks or the Abu Dhabi Investment Company, whose activities are well known, or operations such as the Aggad Investment Company, that are part of major Arabian family companies. Nor does it include the three or four private Saudi investment companies, which were established in the early or mid-1970s, but have mostly not been very active since.

Arabian Investment Banking Corporation (Investcorp): Bahrain Exempt Company (EC), established May 1982. One of the last companies to be established before the collapse of the Souk al Manakh. Paid up capital $200m, of which 87 per cent was subscribed by a very large group of founders from all the Arabian oil states. The remaining $26m of shares was 1,400 times oversubscribed.

Investcorp will concentrate on investment outside Arabia; most of its international investment staff will operate out of London. Its clients will be its shareholders and other members of the Arabian public. The company intends to include some of its own capital along with clients' funds in the investments it makes.

At present the company is concerned mainly with establishing its operations. Staff work out of offices in the Holiday Inn Hotel in Manama, while its offices in the diplomatic area of the city are being built. Chief executive is Nemir Kirdar, an Iraqi, previously with Chase Manhattan and the Arab Monetary Fund.

Trans-Arabian Investment Bank (TAIB): Bahrain EC established in 1979. Paid-up capital June 1983 $62.5m, assets excluding contras $213m. Offices in Manama, with representative offices in New York, Hong Kong and Cairo. Owned mainly by Saudi investors led by Prince Saud bin Naif bin Abdel-Aziz, who is honorary chairman.

Most of TAIB's business is with Saudi Arabia and Saudis. Its Arabian operations involve project finance and lending and advisory services for companies exporting to the region.

TAIB runs two foreign investment operations which manage funds for its shareholders and other clients. One is Transar Properties Investment Company NV, which has its offices in Florida and deals with North American real estate. TPIC has so far invested $160m of its own and clients' funds. The other company, just established, is the Parisbas-TAIB management Company. This will operate out of New York and advise on industrial investments in North America. TAIB does not provide investment services outside the specialist categories operated by these two companies.

Gulf Investment Company: Established by Sabah al Rayyes, a Kuwaiti engineer, and a group of friends. Rayyes is chairman of the company and the architect of its investment policies. The company has a reputation for being very professionally run. Did very well in silver in 1980.

Paid up capital end 1982 $288m. Holds $200m of post-dated cheques from trading on the Souk al Manakh. $36m of the cheques are from "troubled debtors" and the company at the end of 1982 made provisions for bad debts totalling $55m.

Company has real estate investments worth $150m. It has an option on 50 per cent of a building on Park Avenue Plaza, New York, and a joint-venture with Hilton for the development of a hotel and leisure facilities in Los Angeles.

Pearl Investment Company: Bahraini EC, operates out of Kuwait. Promoted by Saad Nahad and Faisal and Khaled Yusuf Marzoukh of Kuwait. Like GIC, above, began as a closed club of investors and then sold shares to other subscribers. At end 1982 net worth was $182m, profits $34m, post-dated cheques held $140m, provisions for losses on cheques $33m.

Investments outside Kuwait include a stake in the new Kuwaiti French Bank in Paris, substantial real estate interests on the U.S. West Coast, and venture capital operations.

Sharjah Group: First company to be established in a lower Gulf state for the purpose of circumventing the Kuwaiti Government's rule forbidding registration of new public companies in Kuwait. Chairman, Shaikh Nasser Sabah Ahmed al Sabah, and vice-chairman Fawzi Musaad Saleh. Founder shareholders mainly Kuwaitis including several members of the Sabah and Saleh families.

Assets end 1982, $925m, of which commercial paper and loans amounted to $724m, securities quoted and unquoted, $165m, and real estate, $6m. Not seriously exposed on Souk al Manakh.

Active internationally in wide range of investments, including real estate, equities, commodities and options. Owns Arabian investments in real estate and light industry.

Coast Investment and Development Company: Registered in Ras al Khaimah 1980, operates out of Kuwait. Managing director Mohammad Jassim al Sagar, general manager Faisal Ben Khadra — both formerly with Industrial Bank of Kuwait. Assets end 1982, $181m, of which quoted securities of equities and bonds $82m, loans $77m, unquoted securities and land etc $22m. Paid up capital, $100m. Limited exposure on Souk al Manakh. Paid no dividend in 1982.

Operations include international stock market and commodity dealings, venture capital projects and properties. Among major investments are a holding in Smith Barney and participation in the Terrasse de Genève scheme — developing a golf course and other amenities on French territory overlooking Geneva.

Bahraini Kuwaiti Investment Group: Bahraini EC established 1982. Mainly Kuwaiti-owned and operates out of Kuwait, chairman Hussain Makki Juma. At end of 1982 the company's assets were composed almost entirely of a portfolio of $325m of post-dated cheques. The portfolio was managed by the Kuwait and Manama General Trading Group, which is a Kuwaiti limited company owned by three of BKIG's directors.

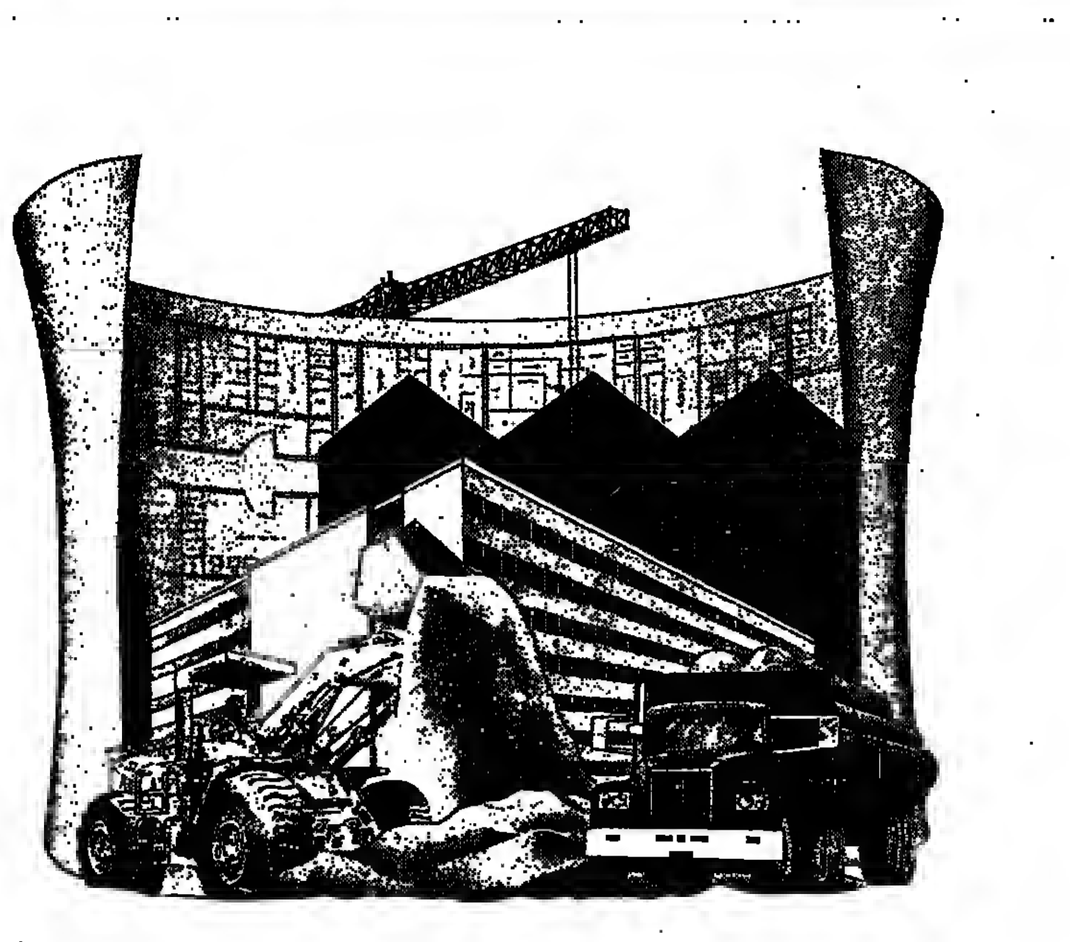
Share purchases were financed partly by a $200m syndicated loan arranged by the Bank of Bahrain and Kuwait. Company paid interest due on loan in February, with some help from BBK, but did not meet interest due in August because, it said, it was waiting for settlement of its cheques. The Bahrain Monetary Agency has said that the company may conduct no further business until it has resolved its post-dated cheque problem.

Al Jazira Contracting and Investment Company: Bahrain EC established 1978. Chairman Prince Mohammad bin Fahd bin Abdel-Aziz. Paid-up capital end of 1982, $72m; assets $188m; profit $2.3m; post-dated cheques held $8.3m. Main contracts involve work on the Abu Ghraib irrigation project near Baghdad and work on the site of the Bahrain iron ore pelletising plant.

Bahrain International Investment Centre: Officially a closed company, though its share are traded. Began operations March 1982. Owns subsidiary in Kuwait. Paid up capital end 1982, $125m, assets $137m, including deposits of $44m and real estate in Kuwait worth $10m. Company has substantial holdings of post-dated cheques.

Gulf Consolidated Company for Services and Industries: Chairman, Prince Saud bin Naif bin Abdel-Aziz. Paid-up capital end 1982, $149m, assets $158m. Holds post-dated cheques with face value of $45m, has $10m of venture capital in Ajman oil concession and $34m in a real estate development in Singapore. Company has hived off its services to a dozen subsidiaries; it is now solely an investment business.

M. F.



ARAB BANKING AND FINANCE VI

Aid to Iraq

Increasing reluctance to hand over funds

THERE CAN be little doubt that Iraq is now in fairly desperate financial straits. Its foreign exchange reserves are down to some $3bn—figures from the Bank for International Settlements show holdings outside the U.S. as having dropped to $1.2bn.

The principal reasons for the decline over the last three years are uncontested. When Iraq began its war with Iran in September 1980 it had some $30bn in reserves and was committed to a large economic expansion programme. Despite the dragging on of the Gulf war work on most of the $20bn to $25bn worth of contracts has continued.

With its oil exports cut back from the record 3.2m b/d in 1980 to 750,000 plus about 250,000 b/d in "compensating" oil sales by neighbours Kuwait and Saudi Arabia, revenues are forecast at around $10bn for the current year. To bridge the gap Iraq has had to rely on loans (although the issue of repayment has never been clarified) from the Gulf states.

Yet, as the battlefront has stabilised on the old border lines, the Iraqis have had increasing difficulty in overcoming the reluctance of their erstwhile backers to come up with fresh funds. To date some $26bn has been given by these states to Iraq and now they too face problems as oil revenues have fallen.

An Arab banker in London suggested that perhaps it was necessary for Iraq to lose a town or a city to Iran in order to restore the fear of an Iranian victory to the Saudis and the Kuwaitis. In Paris, the Arab bankers, at least some of them, think that Iran has once again been allowed to do the arm-twisting on behalf of Baghdad.

Once the Super Etendards with their Exocet missiles are in Iraq it is generally assumed that Baghdad will resume its capacity to strike at both Kharg Island (Iran's oil exporting lifeline) and at shipping moving in the Gulf "no-go" zone declared last summer. Iran, perceiving this threat, will of course step up its rhetorical barrage against its enemies—France and most of the Gulf states. Against the Gulf oil exporters the threat is a specific one—to block the Straits of Hormuz at the entrance to the Gulf and/or to attack the oil facilities of those financing Iraq.

Frightened of calling Iran's bluff, the Gulf states will then appeal to Iraq not to attack Kharg or the tankers and Baghdad gets its money for agreeing to play ball with this hands-off scheme. At least that's how the argument goes.

According to Mr Hadi Naffi, of the Banque de la Mediterranee-France, there is a considerable desire among Arab bankers (in Paris) to do what they can to help Iraq. "Yet with our limited funds we cannot handle amounts as big as they are seeking. What some banks here are doing are one to two year credits for small amounts, for example a recent one for $30m for a wheat purchase."

Mr Naffi expressed a common emotion when he wondered why it was that "no one in the West is thinking of aiding Iraq in the way they wish to bail out certain Latin American countries."

Flaw

The answer to Mr Naffi's slightly rhetorical question is of course that purely in financial terms Iraq doesn't owe the international banks enough to be bailed out. Having pursued a macho "cash on the nail" policy during the good years it was hard for Iraq to have sought credit without admitting that something was going wrong—and Baghdad is averse to such admissions.

There does seem to be a flaw here somewhere, however. Surely a different financial policy could have sought to spread payments over more years through borrowing? It almost now seems as if Iraq is to pay a high price for its financial policy probity of the past—the high price being the terms it is agreeing on its various arrangements with suppliers as the debts have mounted in the last year (see column 8).

"The only serious policy that would have made a difference on the sort of scale we are discussing would have been the opening up of a secure outlet for oil exports to the Red Sea. Iraq was too dependent on its vulnerable Gulf terminal and the pipeline across Syria, its old enemy, to be secure in a lengthy war," said a senior Arab economist.

Of course the proposed pipeline across Saudi Arabia is now under discussion and as ever the problem is money—for who is to finance it? Iraq says the Saudis should and one can guess their answer. However, the economist was convinced that in the end Saudi Arabia, after suitable brotherly arm-twisting, would finance the project.

An even more revealing attitude to assessing the level of risk to be attached to lending money to Iraq has come from one of the foreign banks helping out with project finance arrangements. "Our calculations are not based on whether Saddam Hussein survives. We will accept Iraqi Central Bank guarantees and expect that any successor, if this regime should fall, will eventually honour them. Even the Iranians have ended up paying out—why should Iraq be different?"

International banks bad e fairly good chance last autumn to express their own attitudes when Iraq raised $500m in a five-year syndicated loan lead initially by UBAF (in which the state-run Rafidain Bank is a minor shareholder). Although the terms on the credit, a flat margin of 1 per cent above Libor, were attractive few banks wanted to know.

In the end five of the eight lead managers were Arab banks and even though on the Euromarket few wanted to participate enough non-Arab banks were eventually found to underwrite the whole $500m.

However, in March a $120m Eurocredit for financing the expansion of the sole working pipeline (the one via Turkey) was fairly successfully floated. Perhaps the lesson is that credits can still be arranged even for Iraq as long as banks see that a definite return is on the cards.

Now the inevitable has happened, payment delays have mounted upon delays, projects are being rephased and Iraq is mortgaging its future oil sales to pay for arms, food and work on those projects that continue despite everything.

The tough rulers of Iraq are not the sort to find sweet talking international banks easy so perhaps the old way will prove the only way. "Iraq is playing a high stakes poker game, it has to scare the Saudis enough to put up the money it needs without appearing to be on the verge of collapse to its own people," said a London-based Arab banker. "It is a difficult act to keep up."

Terry Povey

WHO IS LENDING TO IRAQ

FRANCE: Coface, the export guarantee body, has agreed to a $1bn three and a half year package, including a two-year grace period, for current projects. Last year's debts are to be covered by oil sales of 80,000 b/d. Military credits are also to be covered by oil sales.

JAPAN: Debts with Marubeni, Mitsubishi and Sumitomo from 1982 to be repayed by sale of 7m barrels of Saudi oil—negotiations with Mitsui still continuing. 1983 payments expected to total some $500m are to be deferred for two years. The drawdown period on the 1974 $1.5bn Ex-Im Bank facility has been extended.

UK: The Export Credit Guarantee Department has so far failed to reach a full agreement and talks are continuing. However, Morgan Grenfell the merchant bankers, have stepped in to provide $65m for Laing's and individual companies are discussing terms on similar deals.

BRAZIL: Oil exports to cover military supplies and a one year deferment on payment of $300m worth of meat supplies for 1983.

U.S.: $330m credit for wheat purchases.

ARGENTINA: One year deferment of payment for $300m worth of meat.

TURKEY: Central Bank has granted three-year trade facility of $85m for Turkish exports and talks continue with contractors on payments.

INDIA: $120m overdue payments on construction contracts rescheduled with Indian Government providing guarantees and loans to its workers.

PHILIPPINES: Iraq has asked for a two-year promissory note for 60 per cent of the migrant worker's wages.

WEST GERMANY: Hermes, the export credit guarantee organisation, is dealing with each case on an individual basis. There have been some three-year loans, with one year grace, made. AKA has made a $50m financing arrangement for an expressway project.

SOUTH KOREA: Hyundai receiving oil for 1982 payments and a $26m loan from Arab banks for continuing work.

ITALY: Asico has accepted two-year promissory note for 1983 and SACE are guaranteeing such notes issued to individual companies.

AUSTRIA: Has been asked for three-year loans.

NETHERLANDS: Bredero getting 85 per cent of finance from export guarantee fund.

SPAIN: Two-year notes accepted and CESCE giving Spanish companies interim guarantees.

JORDAN: Central Bank giving $65m to finance local suppliers over 1982 debts.

Eurobond Market

Still seen as a major challenge

"FIVE YEARS AGO," says one leading Eurobond manager, "the first thing you asked about any issue was how much will the Middle East take? That is not the case any more."

At first sight this might seem a natural development in the wake of falling oil prices. After all, the Middle East now has less money to invest, and there is no reason why it should remain central to the placement of international capital market issues.

But that is far from being the whole story. Arab bankers themselves still see the Eurobond market as a major challenge, and, paradoxically, the decline in oil prices has helped concentrate their minds on ways of rising up to it. Says Mr Osama T. El-Ansari of Kuwait's Arab Company for Trading Securities, "there's a far greater emphasis on investing the funds available. You're trying to compensate for less oil income by managing your financial resources better."

It is this sort of pressure, coupled perhaps with last year's Kuwait stock market crash, which is making Arab financial institutions look more closely at the potential of the bond markets. In the days of the petrodollar glut the main problem for Arab investors, particularly in the official sector was placing amounts of money so large that the bulk had to be put on deposit with international banks.

Shrank

Partly as a result of this some of the countries concerned got together and founded banks themselves. Gulf International Bank and its younger competitor Arab Banking Corporation were both conceived as vehicles for Arab participation in the lending bonanza associated with the years of recycling.

Now, the picture has changed. As these banks were being geared up to do more and more business, the loan market shrank following the Latin American debt crisis. Business prospects for international lending slumped, while in terms of volume at least the bond markets flourished. The new giants in Arab banking with their large paid up capital have found themselves best placed for the wrong market.

As long ago as early 1982 Mr Abdulla Saudi, head of the Arab Banking Corporation urged Arab financial institutions at a Financial Times conference in London to concentrate more on fee generating investment banking rather than straight lending. Yet, the shift in this direction has been slow to come about. Finding the money to set up lending banks was easy, says Mr Hikmat Nashashibi, head of Al-Mal, the Arab-owned investment bank, "but in the bond market you need the human faculties, not just capital. Arab banks have to gain the respect of borrowers, of colleagues in the investment banking community, and of investors."

Like Mr Saudi, Mr Nashashibi believes that this task is crucial if Arab financial institutions are to retain an important role in international finance. "Unless Arabs move in the direction of traditional investment banking and go out to tap the 'Arab dentist,' and unless they enhance their technical capability, combining placement capability with an ability to lead-manage international bond issues in a professional manner, Arab involvement in international finance will have been nothing but a temporary phenomenon."

Mr Nashashibi is under no illusions that this will be an easy task. He points out that investment banking is above all a matter of relationships, and traditional investment banks can have contact with borrowers going back more than 100 years. But where Arab institutions can gain an advantage is in their ability to seek out and satisfy wealthy private individuals in the region. Al-Mal was founded with this in mind two years ago and its success to date points up something of a change in the nature of the Middle East appetite for bonds.

Where previously there was generally strong demand from the Middle East for floating rate notes which tend to be preferred by official buyers, there is now increasing absorption of the fixed rate paper that is preferred by private investors. This is not to say that Middle East governments have stopped buying floating rate notes—"the demand has simply tapered off in the last six to nine months," as one London banker puts it.

Gradually private investors, who may be seeking a safe haven for their money after the collapse of Kuwait's unofficial Souk al-Manakh stock exchange, have begun to compensate for slacker demand from governments as oil revenues began to drop.

Winning some of these customers over is a great challenge for local institutions. Yet some signs of success are reported from the region's own bond market in Kuwaiti Dinars. According to Mr El-Ansari this has begun to benefit from the greater interest of private individuals in fixed interest securities. On the secondary market turnover was up 30 per cent in the first seven months of this year, compared with the same period of 1982.

Kuwait as a capital exporter is a natural home for a regional bond market, even more so than Bahrain, which lacks the investor base and has developed more as a banking turntable, or other centres such as Amman, which is a capital importer. Its own bond market has developed slowly with many setbacks; first because of the difficulty in attracting good quality borrowers and second because of the natural inclination of investors to seek higher returns in other markets.

In this respect its development mirrors the whole Arab involvement in the bond business as Arab institutions fight to gain expertise and respect in the market. Now, despite the drop in oil prices there is one important good sign on the horizon. In these days of high real interest rates and a generally uncertain investment climate "people have begun to realise that a 12 per cent return might make sense," says Mr El-Ansari.

Peter Montagnon

ARAB BANKING AND FINANCE V

Islamic Banking

Following the historic route

ISLAMIC banking is following the historical route taken by Islam, out from its birthplace in Arabia and into the non-Arab, non-Muslim world, where it is seen both as a novelty and a threat.

There is some good-natured rivalry among the older Islamic institutions about their relative seniority. The Dubai Islamic Bank, founded in 1975, is correct in claiming to be the oldest commercial bank organised strictly in accordance with the *Shari'a*, Islam's canon law, although the Nasser Social Bank, founded in 1971, was by then firmly established. But, as its name implies, the latter is not primarily profit-oriented, having been founded by Anwar Sadat as a welfare organisation for the needy.

Another Egyptian bank that claims to be at least partly Islamic, Banque Misr, was founded in 1920, but it was not until 1980 that it opened its first Islamic branch. While the rest of the bank practises normal interest-based business, the Islamic department, centred in the heart of Cairo's textile suq and a stone's throw from the Al-Azhar theological college, has used its solid reputation to attract the devout conservative customer. Cairo's three more recent creations pour gentle scorn on it as a hybrid, "like a building with a bar downstairs and a mosque upstairs" as one competitor put it.

The latest claimant to the Islamic banking label curiously enough received its first banking licence only this summer, but has been practising Islamic banking since the 1940s. The Al Rajhi Company for Currency Exchange and Commerce, like the other money-changers of Saudi Arabia, was ordered in 1981 to cease taking deposits by the end of 1984 and restrict itself to foreign exchange and transfer business, fields where it had for years run rings round the commercial banks.

Provisions

The money changes lobbied hard to have SAMA's ruling reversed. The Al Rajhi Company, still very much a family concern, astutely applied for a full banking licence as an Islamic institution, and the authorities, somewhat reluctantly it is felt, have finally agreed.

One may well wonder why Saudi Arabia should have taken so long to permit Islamic banking. After all, few Muslim countries observe the provisions of the *Shari'a*, so strictly, with compulsory observance of prayer-time, rigid attention to the dietary and morality codes, at least in public, and the institutionalisation of *zakat*, Islam's wealth tax. The answer probably lies in the innate conservatism of Saudi decision-makers, who would like to see the Islamic economic system prevail, but have the problem of investing profitably their $150bn of foreign exchange holdings.

During the past year, the Islamic financial system has continued to grow, though at a slower rate than before. Because of the recession affecting Arab oil producers it can safely be predicted that 1983 results will not live up to expectations, although there is still substantial impetus from "converts" to the system chiefly in the non-Arab world.

The two major Islamic holding groups, Dar al-Maal al-Islami, of Geneva, and Islamic Banking System International Holding SA of Luxembourg, continue to expand, the former pressing ahead vigorously in sub-Saharan Africa and opening a Bahrain OBU, the latter achieving a notable coup in obtaining a full licence in Denmark, the first in an EEC country. Both groups will soon have operating subsidiaries in Turkey and perhaps the Indian sub-continent.

DMI expects to publish its second annual report (for the year ended June 1983) later this month. Analysts predict lower earnings because of already-announced losses in precious metal trading. Investor confidence remains buoyant, however, with its equity participation certificates, which moved slowly at the late 1981 public offering at $105, trading at $141 in Gulf markets last week. This amounts to an annual capital appreciation of about 20 per cent.

DMI plans to intensify its expansion, looking as far afield as the Far East and the U.S., and may before long go to the market again for a further tranche of its $1bn authorised capital.

It remains confident of becoming a UK-licensed deposit-taker and has leased prestigious offices in St James's. But the Swiss authorities are still cool towards its application to incorporate a Masraf, as it calls its banks, in Geneva, operational headquarters of the group, where it has recently moved into a new office tower.

Expansion

Despite this emphasis on geographical expansion, much of DMI's turnover comes from the Islamic Investment Company of the Gulf, the pioneer which DMI acquired on formation for $60m in equity. IIC's assets have continued to grow rapidly over the past year, officials say. Much of the inflow has come through its 26 offices in Saudi Arabia, which operate through the auspices of DMI's chairman, Prince Mohamed al-Faisal, son of the late King Faisal, after whom its banks are named.

IIC's investment vehicle is the *mudaraba*, the Islamic version of a unit trust. *Mudarabas* are sold in U.S. dollars and Gulf currencies and profits are credited every month. A form of life insurance, called *takaful*, has also been launched recently.

If DMI dazzles by its size and promise, Kuwait Finance House astounds by performance. Founded in 1977 by three Government ministries and the Kuwaiti public, it quickly captured the imagination and savings of devout Muslims. By September 1983 its assets had grown to almost $3bn, up 42 per cent over the year. In fact this asset growth as now virtually ceased, since, according to Adnan Al-Bahar, manager of the international division, it was becoming too difficult to invest the flow of deposits Islamically.

Dubai Islamic Bank is coming out of its shell after a quiet year or two. Its main news has been the opening this summer of a branch in Abu Dhabi, which is reported to have got off to a brisk start.

Its branch in the Dubai suq has witnessed a considerable upsurge in business since the dhow-trade with Iran began to pick up last year.

Dubai Islamic differs from most Islamic banks by its substantial direct investment programme. Among its joint ventures are projects involving aluminium, construction, printing and chemicals, and it recently became involved in a scheme to export mineral water from Egypt to the UAE.

Egypt remains the country with the most Islamic institutions, four banks and at least 10 investment companies. Faisal Islamic Bank of Egypt, the market leader, continues to forge ahead. Despite its name, it is not part of the DMI group, although Prince Mohamed al-Faisal is its chairman. DMI would like to acquire a base in Cairo, and unless a deal is struck with Faisal Islamic's other shareholders may opt for an independent presence.

The Islamic financial system thus continues to flourish, although there are still large gaps, even in some major Arab countries—there is nothing in the Levant or the Maghreb. While development of the system in the Arab world is incomplete, bankers are awaiting with interest Pakistan's and Iran's attempts to Islamicise their entire economies.

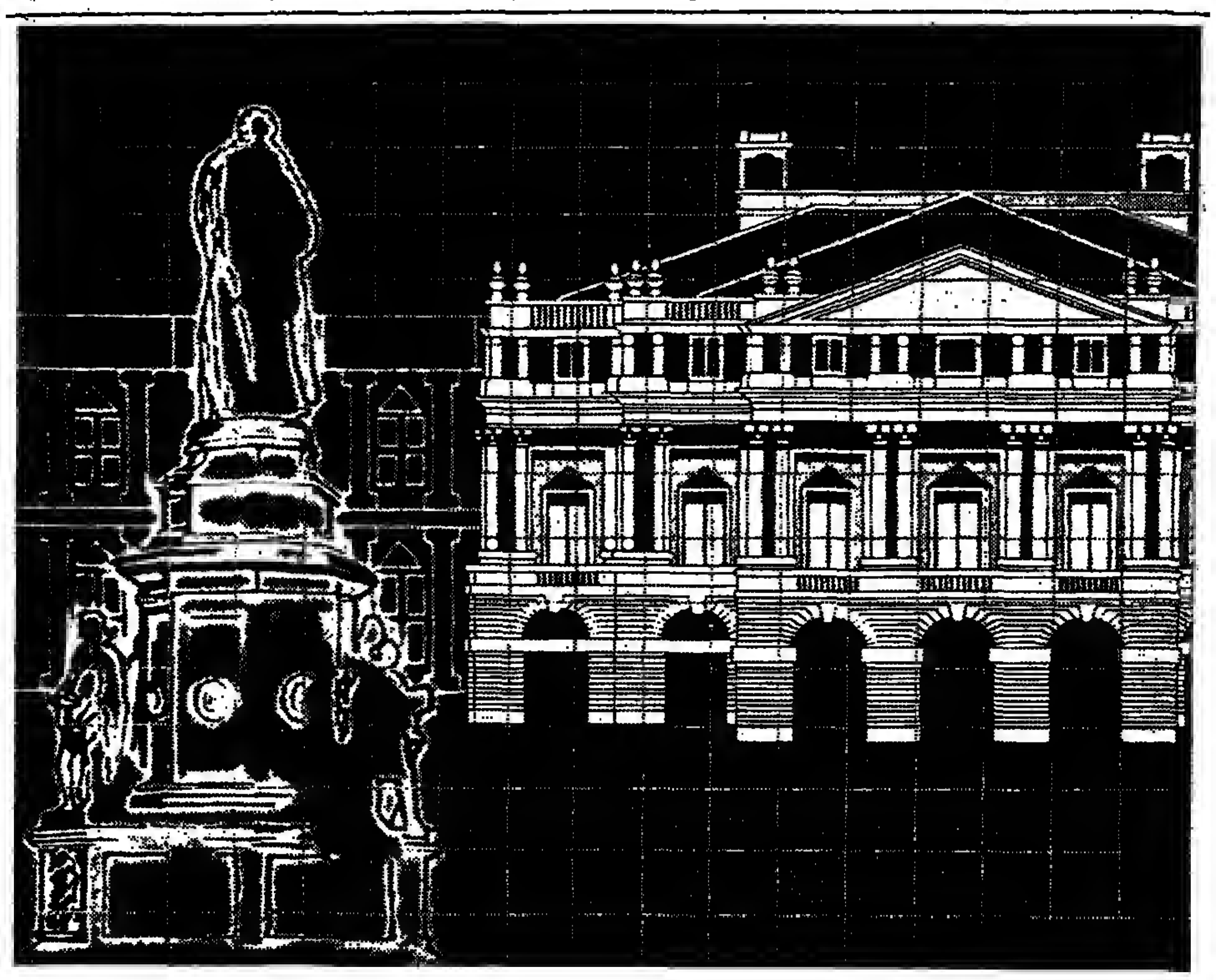
Roger Cooper

ISLAMIC BANKS IN ARAB COUNTRIES

	Name	Est.	Paid-up capital (US$m)	Major shareholders (and notes)
Bahrain	Bahrain Islamic Bank	1979	15	Bahraini public and Government agencies. Kuwait Finance House and Kuwaiti Government agencies, Dubai Islamic Bank (full banking licence)
	Masraf Faisal al-Islami (Bahrain)	1983	20	Dar al-Maal al-Islami (OBU licence)
Egypt	Banque Misr	1980	—	Egyptian Government (Banque Misr has an Islamic department with separate accounts, but no separate corporate identity)
	Faisal Islamic Bank	1977	21	Egyptian nationals 51%, Saudi and other Muslims 49% (10 branches, offshore status)
	Islamic International Bank for Investmt. and Dvlpmnt.	1981	12	Egyptian nationals, mainly non-resident (Offshore status, investment banking)
	Nasser Social Bank	1972	5	Egyptian Government (21 branches, social welfare objectives)
Jordan	Jordan Islamic Bank for Finance and Investment	1978	9	Jordanian public (8 branches, full commercial licence)
Kuwait	Kuwait Finance House	1977	30	Kuwaiti public 51%, Kuwaiti ministries 49% (10 branches, banking investment and trading)
Saudi Arabia	Islamic Development Bank	1975	—	Governments of 41 Muslim countries (provides interest-free loans for social and economic development in Muslim countries and communities)
	ex-Al Rajhi Company for Currency Exchange and Commerce	1983	172	Al-Rajhi family (174 branches, foreign exchange dealings and remittances, recently granted licence for Islamic banking)
Sudan	Faisal Islamic Bank (Sudan)	1978	9	Sudanese nationals 40%, non-Sudanese 60% (7 branches, commercial and investment banking)
United Arab Emirates	Dubai Islamic Bank	1975	14	Lootah family, other UAE nationals (4 branches, including one in Cairo)

ISLAM'S BANKING INSTITUTIONS IN NON-ARAB COUNTRIES

	Name	Notes
Bahamas	Dar al-Maal al-Islami Trust	Holding company for DMI Group, with operating headquarters in Geneva, founded in 1981. Authorised capital $1bn ($308m paid-in)
Cyprus (Kibris)	Kibris Islamic Bank	Established 1982, paid-in capital $1m
Denmark	Islamic Bank International	Established in summer 1983, Kr 25m paid-in capital, mainly owned by Islamic Banking System International Holding SA of Luxembourg. First full licence for an Islamic bank in Europe
Guinea	Masraf Faisal Islami (Guinea)	Established mid-1983, subsidiary of DMI, authorised capital $20m
Iran	Iranian banking system	All Iranian banks are now operating Islamically
Luxembourg	Islami Banking System International Holding SA	Shareholders from 27 Islamic countries including several Islamic banks
Malaysia	Bank Islam Malaysia	Established July 1983. Owned by federal Government (30%), religious councils (25%) and other state agencies. Capital M$100m
Niger	Masraf Faisal Islami (Niger)	Established mid-1983, subsidiary of DMI, authorised capital $20m
Pakistan	Pakistani banking system	Plans for complete Islamicisation
Senegal	Masraf Faisal Islami (Senegal)	Established mid-1983, subsidiary of DMI, authorised capital $20m
Switzerland	Dar al-Maal al-Islami (DMI) SA Shari'a Investment Services, SA	Operating subsidiaries of Dar al-Maal al'Islami Trust
Turkey	Masraf Faisal Islami (Turkey)	Subsidiary of DMI, authorised capital $20m, under formation
	Kuwait Finance House (Turkey)	Subsidiary of Kuwait Finance House, under formation
United Kingdom	Masraf Faisal Islami (UK)	Incorporated, with authorised capital $0.8m, application as licensed deposit taker submitted
	Al Rajhi Company for Islamic Investments	Established in 1981 as a subsidiary of the Al Rajhi Company for Currency Exchange and Commerce. Trade finance for international companies



ARAB BANKING AND FINANCE VIII

ARAB BANKING AND FINANCIAL INSTITUTIONS IN PARIS

(a) AFFILIATES OF ARAB (BUT NOT LEBANESE) BANKS AND PARIS-BASED ARAB OWNED BANKS

	Established	Parent's headquarters	Neture of activities
Al Saudi Bank	1976	Paris	Commercial bank with 82.5% Saudi ownership plus 10% Banque de l'Union Europeenne (France) and 7.5% Manufacturers Hanover of the U.S. Has a branch in Cannes as well as its Paris HQ. Money market.
Alef Bank	1979	Paris	Sister bank of Saudi European Bank, sharing chairman and chief executive. Ownership divided between SEB and Alef Investment Corporation of Netherlands Antilles. Forex and money market.
Arab Bank	1978	Amman	Branch of Jordanian commercial bank specialising in trade finance and money market.
Arctoc Bank and Trust	1980	Nassau	Representative office of Bahamas-based commercial and merchant bank owned 50% by Arab individuals, 20% by Societe Financiere Immobiliere et de Placements (France), Yom Finance with 10% and Banco Ambrosiano Overseas with 20%.
Bank of Credit and Commerce International (Overseas)	1977	Cayman Islands	Branch of Luxembourg-based BCCI (Holdings) group which is 60% owned by Arab investors. Now emphasising on attracting deposits from small investors (eg Pakistani workers) in Europe. Trade financing, forex and Euromarket operations.
Banque Arabe Privee	1978	Paris	Wholly-owned subsidiary of BAII (see below).
Banque Arabe pour le Developpement Economique en Afrique (Badea)	1976	Khartoum	Delegation in Europe for the Arab state-financed Badea Bank—which provides development aid for non-Arab African states.
Banque Centrale Populaire du Maroc	1968	Casablanca	Branch of Moroccan commercial bank which is effectively state-owned. Trade finance and the savings and remittances of Moroccan workers in France.
Banque Chaabi du Maroc	1973	Paris	95%-owned subsidiary of BCPM with three branches in France.
Banque Marocaine du Commerce Exterieur	1972	Casablanca	Representative office of BMDCE—a state controlled bank with international participation. Trade financing and forex.
FRAB Banquo International	1969	Paris	Owned by consortium of Arab interests of which Kuwaitis (75%) dominate. Has an OBU in Bahrain. Syndicated loans, forex, trade finance, investment, bond market. Was once a consortia bank.
Kuwaiti French Bank	1980	Paris	Commercial bank which is 80% Arab-owned (half of this with Pearl Investment of Bahrain and the other half Kuwaiti institutions) and 20% Credit Industriel et Commercial of France. Trade finance, investment and forex.
National Bank of Abu Dhabi	1979	Abu Dhabi	Branch of UAE commercial bank. Trade finance.
Qatar National Bank	1978	Doha	Branch of Qatar commercial bank which is 50% state owned.
Saudi European Bank	1980	Paris	Owned by Saudi Arabian and European Finanz Corporation of Netherlands, itself owned by 12 Saudi individuals. Has an offshore unit in Bahrain and a rep. office in New York. Trade finance, money market, forex, investment, commercial lending, credit and bond markets.
Societe Bancaire Arabe	1978	Paris	Commercial bank with Syrian ownership plus participation from Banque Worms of France (10%) and Banque de l'Union Occidentale (France), also 10%. Trade finance.
Union Mediterraneenne de Banques (UMB)	1975	Paris	50% owned by Algerian state banks and 50% by French banks. Has three offices in France and specialises in trade finance, forex and credit operations.
Union Tunisienne de Banques	1977	Paris	Tunisian-owned bank with three branches in France and an OBU in Tunis. Remittances and trade finance.
(b) CONSORTIA BANKS			
Banque Arabe et Internationale d'Investissement (BAII)	1973		Owned 50/50 by two consortia of 21 Arab institutions and 16 non-Arab ones through Compagnie Arabe et Internationale d'Investissement (CAII) of Luxembourg. Has an OBU in Bahrain and rep. offices in Beirut, London and New York. Investment advice, money markets, forex, bond and credits, project finance, trade finance, oil trading, fund management.
Banque Intercontinentale Arabe (BIA)	1975	Paris	Joint-venture bank between Libya and Algeria via the two countries' state-owned foreign banking concerns. Trade and project finance.
Ifabanque	1979	Paris	Commercial and merchant bank 70% owned by Compagnie Financiere d'Ifabanque Luxembourg (in turn owned by Saudi and Kuwaiti private shareholders) with 15% held by Robert Fleming of the UK and 15% by Banque Worms of France.
UBAF (Union de Banques Arabes et Francaises)	1970	Paris	Now an almost entirely Arab-owned consortium bank with the French Credit Lyonnais keeping only a holding in the local operation. Ownership now in the hands of UBAC Nederlands (itself owned by a Cayman Islands company of the same name)—a consortium of Arab banks and state institutions. Trade finance, forex, project finance, euromarket, credit, syndicated loans.

LEBANESE BANKS IN PARIS

Arab Finance Corporation	1974	Beirut	Owned by Arab Finance Corporation (International) of Luxembourg whose shareholders are principally from Saudi Arabia. Forex, trade finance, bonds, syndicated loans, project finance and real estate, investment advice and fund management.
Bank of the Near East		Beirut	Owned by International Finance Corporation, Banque Vernes et Commerciale de Paris and the SNA group.
Banque Audi (France)	1979	Paris	Owned by Lebanese interests of the Audi group (Banque Audi, Inti Bank) and by Caisse Centrale des Banque Populaire (France) 25%, Investbank (Sharjah) 3%. Forex, trade finance.
Banque Byblos France	1980	Paris	Owned by the Byblos group of Lebanon with a 30% participation from the French Thomson group through Societe Financiere Electrique de Banque. Trade finance, Forex.
Banque Europeene pour le Moyen-Orient (France)	1976	Paris	Owned by Cedar Investments, a Lebanese group based in Luxembourg.
Banque Libanese pour le Commerce (France)	1958	Paris	Owned by BLC of Beirut. Has four branches in UAE.
Banque Libano-Francaise (France)	1976	Paris	Wholly-owned subsidiary of BLF in Beirut with branch in Nice and another in Monaco.
Banque Sabbag et Francaise pour le Moyen-Orient	1979	Beirut	Lebanese-Saudi owned bank. Trade finance, equities.
Banque G Trad-Credit Lyonnais (France)	1977	Paris	50.6% owned by Lebanese parent of same name, 48.2% by Credit Lyonnais. Trade finance.
Banque de la Mediterranee-France	1976	Paris	Majority Lebanese owned by Mediterranee Investors group (62%) of Luxembourg plus 23% Fidelity Bank of the U.S. and 15% by a Kuwaiti sheikh.
Banque de l'Orient Arabe et d'Outre-Mer	1976	Paris	Majority Lebanese owned (49.67% with Holding du Liban et Outre-Mer of Luxembourg and 7% with Societe Participation Financieres) with 8.33% stake by two Swiss companies and the rest with the public.
Banque du Credit Populaire		Beirut	Representative office of Lebanese family bank. Affiliated with Saudi Lebanese Bank for the Middle East.
Credit Commerciale de France (Moyen-Orient) Paris	1980	Paris	Subsidiary of CCF (France) via its Beirut company.
Lebanese Arab Bank	1977	Paris	Owned by its Beirut parent of the same name and various Lebanese individuals.
Saudi Lebanese Bank for the Middle East	1976	Paris	Formerly the Middle East Bank, this is owned by Societe Libanaise d'Investissements Internationaux of Lebanon (37%), RBH Holding of Luxembourg (33%) and two Saudi individuals (30%).
Societe Nouvelle de la Banque de Syrie et du Liban (Europe)	1979	Paris	Majority owned by Paribas of France (59%) but with a substantial (49%) holding from the bank of the same name in Lebanon.

The Paris Presence

French connection fades

CLOSE HISTORICAL and cultural connections made Paris an obvious and important centre for the establishment of Arab financial institutions in the 1970s. Yet since the Socialist administration of President Mitterrand came to power there has been a marked and, some would argue, even irrational cooling-off of interest in making further commitments.

Affecting the attitude of the would-be Arab depositor is the fear of possible radical moves by the French Government against his holding. So although little has changed for the past 10 years so far as the laws are concerned the disinclination to invest is a fact.

In the early days the less stringent attitude of the French regulatory authorities certainly encouraged the establishment of Arab finance houses. The traditional distinction between *banque d'affaire* and *banque de depot* was blurred over the years and in practice any bank entering France was able to conduct business in accordance with its funds. So much was this the case that there are no Arab institutions in the third category of "etablissement financiere" compared, for example, with London where in the equivalent group there are many.

To make sure that things were in order among the new arrivals the Banque de France insisted instead on a local connection of sound financial reputation. So most of the Arab banks have (or had) a French partner in their Paris operations. This era is now over and increasingly the Arab banks are now desirous and willing to stand on their own feet. Some have even come to resent the outside interference of banks answerable to a very different clientele.

To establish the right gearing ratios for their activities Arab banks had to build up their capital in francs during the seventies. Downside exchange risk was then minimal, with the dollar worth about four francs at the turn of the decade.

Impressive

Over the past three years this has changed dramatically—there are now just over eight francs to the dollar and although the return on dollar accounts when expressed in the local currency look impressive the Banque de France has been seeking an improvement in franc-denominated assets to match the increased activity.

Shareholders have naturally been reluctant to plough money into franc accounts—virtually none of the business done by Arab banks in France is in the local currency (bankers give figures ranging from 3 to 10 per cent). Of course, in order to maintain the 1980 ratios the assets of the banks should be doubled but no one is expecting this overnight.

In true Middle East style the Arab banks appear to have come up with an "ingenious" solution to the problem. The Netherlands-based parent of Saudi European Bank, for example, made a subordinated loan of $7.6m (in 5-year notes) to its Paris subsidiary. Then the dollar loan was matched by a medium-term franc loan over 7½ years. The Banque de France accepts the funds from the second loan as an addition to the bank's capital funds in francs and so with the help of this "pre-participative" loan the gearing ratio was restored, the bank's capital funds almost doubled, and the parent had an effective hedge on exchange rate losses on its subordinated loan.

So far three banks are said to have taken this path—and the only argument, predictably, is which one of them thought of it first!

In more general terms an assistant manager at one Arab bank thought that the real problem over attracting fresh funds was "not exchange controls but exchange rate risk plus general concern over the Government and the state of the economy. There is still a lot of investment in property and this continues, if not as much as before."

Reflecting on almost a decade of change and growth Mr Hadi Nafi of the Lebanese Banque de la Mediterranee-France said: "The most important thing for us Arab banks to learn is that we must be rational in our objectives. We must work with our own people and with those Western concerns, companies and banks, which are doing business or engaged in projects on our region. We cannot and should not aim to compete with the big Western banks."

Mr Nafi also questioned the status of one or two Arab-owned financial institutions. BCCI, he said, while it had a majority Arab ownership, was no longer really an Arab bank. It was now a general international bank and was even trying to attract deposits from migrant workers from the Islamic world and had "set up several branches in the migrant areas of London to attract Pakistani small investors" to do just this.

Mr Nafi made a careful distinction between the non-resident investor and the non-resident client as far as France was concerned. The first was most affected by exchange rate losses on their franc funds and although the lower rate against the dollar should have made property investments more attractive, at least for second or third homes, this had not taken place.

So it does seem as if for the time being at least the Arab investor will be a rarer bird along the Champs-Elysees.

In terms of the future it seems widely agreed that the dominant trend is now away from Europe.

Terry Povey

FLOW OF FUNDS FROM LEBANON DRIES UP

"THE PRESENT bad situation in the Lebanon has not produced a sharp increase in our business here in Paris—and this is the first time this has happened since the civil war led us to set up here in the mid-70s." Lamenting on the complete freezing of economic life in his home country, this was how one banker described the effects of the current tangled political and military situation.

The Lebanese banks in Paris form a distinct group among the Arab financial community there. Numbering 16 out of the total of 38 they were set up by their parents in the 1974-77 period primarily to continue their work in connection with the triangular trading activity for which Lebanon's merchants are justly renowned. "The banks just felt they had to follow their main customers or lose out—we are not here to handle the funds of the exiles," said another banker.

Like the other Arab banks in France those of Lebanese origin had to find partners (the word "sponsor" is sometimes more appropriate but is disliked). This was relatively easy as relations with some of the big French banks already existed on the ground back home.

Given the continual crises that are racking Lebanon it is not surprising if investors from this part of the Arab world are even less likely to want to exchange hard currencies for francs and it is one of the Lebanese banks, Banque Libano-Francaise, which contests the title of deviser of the hedged subordinated loan as the means of restoring franc capital ratios without taking an exchange loss.

With the flow of funds out of the Lebanon now more or less dried up, according to Mr Hadi Nafi, "all the big depositors had moved out their funds before this latest crisis and there really isn't a great deal left," the prospect for the future appears to be building up modest banks closely connected with the triangular trading of their compatriots. It is not clear whether so many banks can survive on this business alone.

T. P.

The London Presence

(a) RECOGNISED BANKS:	established	PARENT'S HEADQUARTERS. NATURE OF ACTIVITIES
Allied Arab Bank*	1977	Almubarakah Finance (Belgium). Commercial bank, (two branches).
Arab Bank	1973	Amman. Branch of Jordanian commercial bank. Trade finance and money market (three offices).
European Arab Bank*	1973	UK registered. Short and medium term lending.
Gulf International Bank	1978	Manama. Money market and forex.
National Bank of Abu Dhabi	1976	Abu Dhabi. Trade financing (two branches).
Qatar National Bank	1976	Doha. Commercial bank 50 per cent owned by Government.
Rafidain Bank	1952	Bagbdad. State-owned commercial bank. Trade and credit financing.
Saudi International Bank*	1975	UK registered. 50 per cent Saudi Monetary Authority. 5 per cent Saudi banks, rest with western banks. Forex, loans for sovereign and corporate borrowers.
UBAF Bank*	1972	UK registered. Forex, deposit dealing, syndicated credits. 25 per cent Midland Bank, 50 per cent UBIC Nederland and 25 per cent Libyan Arab Foreign Bank.
United Bank of Kuwait*	1966	UK registered but with only Kuwait institutional shareholders. Deposit dealing bonds, futures, forex.
(b) LICENSED DEPOSIT TAKING INSTITUTIONS		
Al Saudi Banque	1981	Paris (two branches). *Forex and bullion.*
Arab Bank Investment Co.	1974	Amman. Wholly owned by Arab Bank. Loan syndications and eurobonds.
Arab Banking Corp. BSC	1982	Manama. Jointly owned by Kuwait, Libya and Abu Dhabi. Money market.
Bank of Oman	1978	Dubai. Trade finance.
Beirut Riyad Bank	1981	Beirut. Commercial, trade finance and LC's.
Byblos Bank	1981	Beirut. Trade finance and money market.
C. E. Coates		Manama. UK registered.
Bank of Credit and Commerce International	1972	Luxembourg. Trade finance, forex and euromarkets.
Middle East Bank	1981	Dubai. Trade finance, forex, investment advice, syndication work.
National Bank of Egypt	1982	Cairo (state owned). Trade finance.
National Bank of Kuwait	1980	Kuwait. Euromarkets, forex, investment, credits and loans.
Oriental Credit	1980	Luxembourg. Two offices handle trade financing primarily.
(c) REPRESENTATIVE OFFICES OF OVERSEAS DEPOSIT TAKING INSTITUTIONS (UNDER UK BANKING ACT)		
Arab African International Bank	1978	Cairo (off-shore). Commercial and development bank. 42.4 per cent owned by Kuwait Ministry of Finance and 42.4 per cent by Egypt's Central Bank.
Arab Latin American Bank	1980	Lima (and Bahrain).
Banque de la Mediterranèe (France)	1978	Paris. Representative office of Lebanese bank.
Banque de la Mediterranèe	1978	Beirut.
Byblos Arab Finance Bank (Belgium)	1979	Brussels. Trade Finance and money market for Lebanese house.
Banque Arabe et Internationale d'Investissement (BAII)*	1982	Paris. Commercial and investment.
Bank of Credit and Commerce International (Lebanon)	1982	Beirut. Trade finance and euromarket.
Bank of Beirut and the Arab Countries	1983	Beirut.
The Gulf Bank KSC	1973	Kuwait.
International Trade and Investment Bank	1978	Luxembourg.
Jamal Trust Bank	1978	Beirut.
Khalij Commercial Bank	1976	Abu Dhabi.
National Commercial Bank	1979	Jeddah. Commercial and investment.
Yemen Bank for Reconstruction and Development	1979	Sana'a. Representative in London of YAR Development Bank.
United Gulf Bank	1983	Manama (OBU).
(d) OTHERS		
Al Mal International Services	1980	Luxembourg. UK registered part of the Al Mal group. Investment banking.
Afro-Arab Company for Investment and International Trade (AFARCO)	1973	Kuwait.
Abu-Dhabi Investment Authority	1978	Abu Dhabi. Liaison office for parent's investment activities.
Al Rajhi Company for Islamic Investments		UK-registered. *Owned by Al Rajhi Company for Currency,* Exchange and Commerce of Jeddah.
Alromaizan		UK-registered (Jersey).
Arab International Finance	1974	UK-registered. Investment advice arm of Luxembourg based group.
Banque du Liban & d'Outre-Mer	1982	Beirut. Commercial banking.
Capital Guidance		UK-reg'd. Investment advice for private depositors, part of Luxembourg based group.
Finarab Investment Company		Curacao.
First Arabian Corporation	1973	Luxembourg. Investment advice and management.
Gefinor Finance		Beirut (and Cayman Islands).
GIBA International	1981	Kuwait. Owned by Gulf Bank and Interallianz Bank of Zurich. Investment services.
Gulf Financial Services		Manama. Finance and investment.
International Finance and Exchange Corporation	1978	Doha.
Islamic Finance House		Luxembourg.
Kuwait Investment Office	1966	Kuwait. Manages the investments of the country's surplus funds on behalf of the Finance Ministry.
Middle East Associates (Investment Company)		UK-registered. Part of a Luxembourg based investment group.
Qatar Investment Office	1975	Doha. Owned by Ministry of Finance and Petroleum and invests its surplus funds.
Saudi Arabian Investment Company (Overseas)		Jeddah. Investment, merchant banking and real estate.
SCF Finance Company		UK-registered. Owned by SOCOFI of Geneva. Equity and bond dealing.
Sharjah Group	1976	Kuwait.
Sharjah Investment Company (UK)	1977	Kuwait. Investment and securities broking.
UBAF Financial Services	1974	UK-registered. Project finance and corporate lending. Part of the UBAF group.

* Consortia banks

Source: Who's Who in Middle East Banking and Finance; Bank of England; Arab Bankers Association

Table compiled by Terry Povey.

Consultancy work the major growth area

"OVER THE last year there has been a marked shift in emphasis in the nature of business done by Arab banks and finance houses in London. As more and more of them have opened offices in the U.S., so *inevitably some business has been switched,*" said an Arab banker in London.

So, while London will remain important, unlike Paris which has gone into decline (excepting the special case of the Lebanese banks) since the Socialist administration came to power, the real contest over the next decade is going to be between London and New York. Four new Arab branches opened in New York in the first quarter of this year.

Tilting the balance in favour of New York at the moment is the strength of the dollar, the perception of risk, and the drying up of the Euro-dollar market. Many Arab banks are now expressing a preference to be dealing directly in the U.S., in dollars, rather than through the medium of a market they are increasingly unhappy with. The fact that IBF's (international banking facilities) are tax-exempt for overseas investors in the U.S. is an added attraction.

However, while, in general, the long term investors (in property and companies) are switching away from Europe this is not as true of London and here the reasons for any movement are anyway, different. *In the UK the problem* is "more one of saturation as investors have bought their homes, made their investments and are now looking to spread their portfolios."

The decline of sterling against the dollar will of course mitigate against certain types of investments, but the risk perception affecting attitudes of increasingly conservative Arab investors to much of the rest of the Continent is not a factor here.

"There was a flutter among Arab depositors earlier in the year when rumours of a possible general election began *to* be broadcast but *fears* subsided once the size of the Tory lead became known," says one banker.

Another factor affecting Arab investors' attitudes is the seriousness with which they are now obliged to consider their overseas portfolios. Gone are the days of the massive surpluses of oil funds and revenues, and rates of return are now all important.

This change has led to an increase in client advice and consulting work for the Arab financial institutions in London, bankers expect this area to be one of major growth in the coming year. Already banks, such as BAII, are moving towards acquiring the expertise—hiring the staff and even looking at the possible acquisition of some of the smaller established merchant banks — to cope with the increased demand for the best personal fund management advice that money can buy.

In the past many of the Arab financial institutions tended to farm out this type of work to local banks and brokers — now many of them may well want this type of expertise on tap and in-house.

Along with this development has gone an increased interest in the more speculative markets — contrary to the popular imagination Arab investors tended to be rather conservative in the past. This again could be an area for expansion.

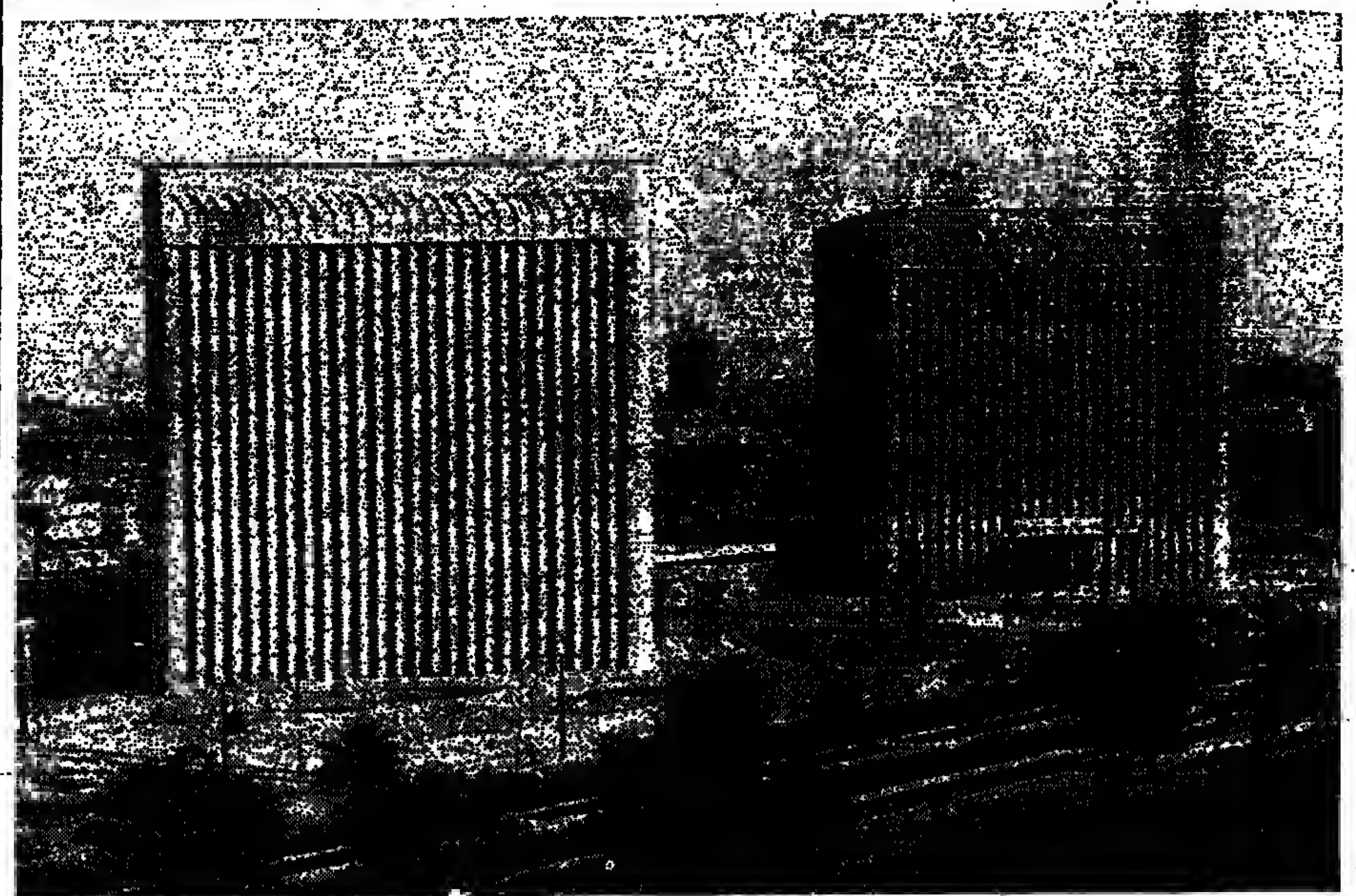
One major negative factor has been the declining interest among Arab banks in the syndicated lending market. In the early days, the new arrivals, in London and elsewhere, were often all too willing to join a "club" to make a loan in order to gain greater acceptance. Now the bad news of world wide debt is making them extremely wary of such involvements and the pressure to join in just to asert their presence is no longer there.

Reflecting this fall in involvement in loans was a reduced participation by Arab banks in the euromarket in 1982. According to the Arab Bankers Association in London, 59 Arab institutions took part in credits totalling \$10.3bn last year, 5.4 per cent down on 1981's level.

Of this total 35.2 per cent involved only three banks, Gulf International, Arab Banking Corporation and the National Commercial Bank of Saudi Arabia.

Looking to the future, Arab bankers in London do not see any real decline in business over the coming year. "What is most likely to happen is that new business will be splitting itself between here and New York. There may not be much growth and there will certainly be some change of emphasis but I doubt there will be any pulling out of the UK," one banker suggests.

Terry Povey



The twin towers of Sama on Airport Street, Riyadh

Saudi Arabian Monetary Agency

Heritage fund advocates press their case

IN APRIL this year, Saudi Arabia announced a budget which involved a $10bn drawdown of its reserves.

Given the level of the Kingdom's oil production at the time, which was well below the amount envisaged in the budget, it was seen immediately that if the government was to meet its spending targets the drawdown of reserves would have to be very much more than $10bn. A figure mentioned was $30bn.

The prospect of a liquidation on this scale caused questions to be asked in Western countries on whether the Saudi action would disrupt the markets. It was feared that it might depress the government securities and bond markets and marginally raise interest rates.

At the time of the budget the assets controlled by the Saudi Arabian Monetary Agency (Sama) totalled some $170bn. Of this figure, rather over $30bn was defined as foreign currency reserves in the IMF's International Finance Statistics and could be equated with the normal foreign currency reserves of central banks.

The IMF statistics's figure for Saudi reserves is liable to fluctuate according to purchases of foreign currency by the private sector, reductions of commercial banks' reserves held with the central bank, and drawings on the accounts of the various state agencies that bank with Sama.

The remaining $140bn odd of Sama foreign assets was made up of the reserve account of the Finance Ministry, which might be thought of as "funds under management," an off-balance sheet item.

Floor

The assets owned and managed by Sama were held about 70-75 per cent in dollars, with 70 per cent probably being regarded as a floor below which the dollar content of the assets would not be allowed to fall.

Divided by type of assets, it was thought that the reserve was split as follows: Twenty per cent was in deposits and CDs, with maturities of three, six and twelve months, held in an "approved list" of some 50 banks. A further 70 per cent was in short dated government securities, mostly with maturities of three years or less, and loans to foreign governments and international institutions, such as the IMF.

The attraction of government securities for Sama is that they are mostly highly liquid and are traded in large quantities. Much of Sama's trading of securities and deposits is done in lumps of $100m. This is far too big a sum in which to deal when buying or selling corporate bonds.

The final 10 per cent of Sama's holdings at the time of the budget was in corporate bonds and equities. The Agency's diversification into these types of securities attracted some attention when it happened in the mid-1970s, but it does not seem to have gone very far.

Apart from the fact that Sama has not previously been put off expanding these types of investments by the fact that it must find it difficult to trade them in amounts of more than $50,000 to $100,000.

People who have worked closely with Sama say that the Agency's equity holdings cannot be very important because they have hardly ever heard them discussed.

The scale on which Sama deals has had a further effect in dictating that almost all its placements are made in New York or London.

The size and structure of Sama holdings has changed very little in the five months since the budget. Immediately after the budget the government took steps to reduce its spending to 75 per cent of the levels it had forecast, and a little later oil production began to rise.

Income

Drawings on the Finance Ministry funds held by Sama have certainly not been more than $3-$4bn. The central bank has been able to cover all the drawings by remitting income or by not reinvesting cash from securities that have matured.

In no market have any effects of Sama actions been felt. In fact, after the initial fears in April it was soon calculated that even if Sama were to liquidate the greater portion of its portfolio it would cause minimal disruption.

The secondary market in U.S. government securities, which must be the biggest single item in Sama's holdings, is estimated to be $35-$40bn daily. In this market it would be easy for Sama to sell $10bn of bills in a month without causing a ripple.

The reason for the securities and deposits market's new invulnerability to Sama actions is simply that they are both very much bigger than they were when the central bank was building up its assets in 1974-76 and 1979-80.

What may have an effect on the markets in the next two or three years is the possibility of a change in Sama's investment philosophy. This possibility, for which quite a large part of the evidence is circumstantial, is being much discussed in Riyadh and in Western banks.

Traditionally the Saudi Government has seemed to regard its foreign investments more as an uninteresting side effect of high oil production than a store of national wealth. The dominant view has been that the reserves are there to act as a budget lubricant and that the new wealth that Saudi Arabia has been creating for itself lies in its industries and agriculture.

This attitude has been reflected in the fact that Sama's investment policy has been more or less static for the last 10 years, or longer. It does not seem to have responded at all to the successive weakness and strength of the dollar, the rise and small fall of interest rates, the decline of the syndicated loan and the revitalisation of the bond market, and the recent huge surge of the equity markets.

As it happens Sama did badly in the 1970s when the dollar fell, the bond and equity markets were weak and inflation ran way above interest rates. In the last three years the position has been reversed and, even without any switch into equities, the Agency's assets must have enormously out-performed oil in the ground or Saudi industry as investments—but in Opec states these calculations are politically sensitive and are never mentioned.

The uninterested and inflexible view of reserves has been particularly associated with the Finance Ministry. In Sama it seems that there has emerged an attitude which sees reserves more as a "heritage fund" for "future generations," which is exactly the view adopted in Kuwait.

This is a purely Saudi development; it has nothing to do with the foreign advisers at Sama. These are a Barings team, which was established at the Agency in 1975 and advises on all markets except the United States, and a Merrill Lynch team, which arrived in 1978, when the company absorbed the previous adviser, White Weld. Merrill Lynch advises Sama on United States domestic investments.

The emerging Sama view is associated with some of the Saudi "Young Turks" at the Agency, who are now beginning to influence its attitudes. It is also associated with Abdel-Aziz Quraishi, who was appointed Governor of Sama in 1975 and resigned in April this year.

A little time before his resignation Quraishi told a visiting German parliamentary delegation that Sama was taking a longer-term view of its assets. In 1980, the Agency bought some $5bn of securities from the Bundesbank and Quraishi said that when this loan became due he wanted to reinvest in the German economy.

Quraishi's resignation was made on grounds of ill-health, though in reality he is known to be quite fit. Naturally it is speculated that the event was a reflection of the differences between the ex-Governor and the Finance Ministry.

After his departure from Sama Quraishi became a special adviser on monetary affairs to the Minister of Finance, Mohammed Aba al Khil, which in Arabian terms may not mean much.

For the moment it seems that the Finance Ministry view has won the day. The new acting Governor of Sama, Hamid Siyari, is related to the Minister of Finance and used to be concerned with the domestic side of the Agency's work.

The acting-Deputy Governor, Ahmed Abdullatif, used to be head of foreign investment operations, but now spends as much time at the Riyadh Bank, of which he is a director, as he does at Sama.

However, in the longer term, it seems that Saudi Arabia is almost bound to start to view its reserves as some sort of heritage fund. Over the next few years, oil revenues will run below the levels of the early 1980s and income from new state industrial plants will not make up the difference.

Logical

At the same time, investment opportunities in the local economy will look less attractive than they did in the 1970s, simply because the best opportunities have been taken.

In these conditions the development of the Kingdom's foreign assets will be a logical policy. This will imply a switch towards corporate bonds, equities, real estate (of which Sama holds none at present) and other direct investments. Sama will probably have to set up operations similar to the Kuwait Investment Office in London because dealings in equities will involve smaller blocks of funds and more manpower than dealings in government securities.

The change will take time and will be accompanied by quite a long battle within the Kingdom's financial establishment. It will amount to a trimming of the state's ambition to change rapidly from an oil to an industrialised nation.

Michael Field

ARAB BANKING AND FINANCE IX

Mid-town New York: the area where most Arab banks have opened their branches

The New York Presence

Most big names on the muster

GIVEN THE strong trading ties between the U.S. and many Middle Eastern countries, it is slightly surprising that Arab-owned financial institutions have not been more in evidence in the New York financial market before now. But they are certainly making up for lost time and virtually all the major Arab banks in the international markets currently have a New York presence.

The interest in opening in New York has accelerated in recent months with well known names like the Arab Bank and the National Commercial Bank, United Bank of Kuwait and Saudi International Bank opening full New York branches. Several others, including the National Bank of Kuwait, the biggest Kuwaiti bank, are also known to be waiting in the wings.

Given the problems in the international banking community and the slow down in many of the major Middle Eastern economies which is being reflected in a sharp drop in U.S. trade with the region, the strength of Arab interest in getting a foothold in the U.S. market at this time seems strange at first sight.

The problems many U.S. banks have faced in Latin America, where many of their loans have moved onto a non-performing basis, have led in a number of cases to decisions to pull out of international banking markets altogether and to redeploy lending officers in the domestic U.S. market. This factor coupled with the marked reluctance of U.S. corporations to borrow from the banks currently makes it hard for a new foreign bank to break into the market. Nevertheless, the temporary difficulties in the international banking market do not appear to be deterring the Arab banks which are steadily building up their presence along Park Avenue.

The reasons for the upsurge of Arab interest in New York are not too difficult to find. Arab banks were late on to the international banking circuit and when they arrived their first port of call was generally London where they could do a large part of their international business. Only recently, with the maturing of the U.S. international financial community, has a New York presence become a necessity.

The bulk of world trade is still in dollars and even if an Arab country imports a product from Japan, it is as likely as not payment will be made in dollars. Traditionally, these payments have been handled by the Arab banks' New York correspondents, but as trade has built up the Arab banks have realised that they have a ready made customer base in the U.S. market which was being picked up by the big U.S. banks. "If you are going to spend the money, you might as well have a presence" says one recent Arab arrival on Park Avenue.

Provide profitability

Not that the Arab banks want to take on the routine day-to-day correspondent banking operations provided by the major money centre banks. These are labour-intensive and require the establishment of a small backroom factory to move the paper efficiently. Nevertheless, there are certain services which the Arab banks can provide profitably and do at least as well as, if not better than, the big U.S. money centre banks.

The Jordanian headquartered Arab Bank is one of a few to start advertising its services extensively. The others have so far limited themselves to formal announcements that they are open for business. The Arab Bank lists import and export letters of credit, back to back letters of credit, clean/documentary collections, performance bonding requirements and credit information, among the host of services it is offering from its Madison Avenue branch.

Foreign exchange and treasury dealing operations with a special emphasis on Middle Eastern currencies are another area where the latest wave of Arab banks hope to make their mark. Jerry Steele, who was hired away from Chemical Bank to run United Bank of Kuwait's new branch in New York has identified the U.S. regional banks as an area where he can carve out a niche. "We can add some value in New York because regional banks are having some difficulty getting good rates for their customers and we can provide a bridge for them," says Steele. The UBAF-Arab American Bank, which is owned by four U.S. banks, 11 Arab banks (two of them central banks) and five Arab consortium banks, was the first major Arab institution to arrive. It opened a New York subsidiary back in 1976 and since then its business has prospered, according to Mr Fakhruddin Khalil, the bank' senior executive vice president, who has been in New York from the start.

Grown faster

New York was the last of the major financial centres in which the UBAF group of banks established a banking presence but with assets of over \$2bn UBAF - Arab American has grown faster than the rest of the UBAF affiliates. As a result it is now second only in size to the Paris-based UBAF, which boasts assets of \$6bn.

UBAF-Arab American is one of the very few Arab banks in New York to publish its profits since it is a U.S. subsidiary In the first half of 1983 its net income totalled \$3.4m and the banks says it expects 1983 to be the best year ever. As a gesture of confidence, UBAF-Arab American's shareholders increased its capital by \$25m to \$100m last December.

The bank has steered clear of lending to troubled Latin American countries, like Brazil and Mexico, does not emphasise real estate lending and notes that about a fifth of its portfolio is corporate U.S. lending. UBAF-Arab American says that the primary reason for its growth and success is the fact that it is both an Arab and American financial institution (it lists Security Pacific, Bankers Trust, First Chicago and Texas Commerce Bancshares amongst its shareholders) and its staff is a mixture of Arab and American bankers.

Typical of the U.S.-Arab deals it gets involved in was a 200,000 kW gas turbine plant at El Mahmoudia in Egypt. A U.S. company won the contract and UBAF-Arab American provided Arab financing utilising fixed rate funding through the U.S. Eximbank, with its Arab shareholders providing complementary financing.

UBAF-Arab American, which now employs more than 100 staff, is among the most visible of the Arab banks operating in New York but it is competing with more than a dozen other Arab full banking operations. This does not include several representative offices which cannot conduct banking business.

While there are still not as many Arab banks in New York as there are in London the numbers have risen steadily and most of the major banks that might be expected to be in New York, have already arrived. The main exceptions are Egypt, which is America's second biggest Arab trading partner, and Lebanon. As yet there are no banks from Iraq, Algeria, Libya, Syria or the Yemen. However, many of these countries conduct their business through consortium banking affiliates.

Indeed, the growth of the Arab banking community in New York has got to the stage where an Arab Bankers Association of North America has been formed. This is not exclusively reserved for Arabs working in Arab banks but includes others with interests in the Middle East. Mr Fakhruddin Khalil of UBAF-Arab American Bank is the president and membership has risen to over 70.

William Hall

AMERICA'S ARAB MARKETS

	\$m
Saudi Arabia	9,026
Egypt	2,875
UAE	1,101
Kuwait	941
Algeria	909
Iraq	846
Jordan	620
Morocco	397
Lebanon	294
Sudan	270
Others	1,324
Total	18,603

U.S. exports to Arab countries 1982. Source: U.S. Department of Commerce.

ARAB BANKS IN NEW YORK

BAHRAIN	
Arab Banking Corporation (B)	245 Park Avenue, New York, NY 10167. Tel 850 0600. Tx 427531.
Gulf International Bank (B)	499 Park Avenue, New York, NY 10022. Tel 750 0660. Tx 424027.
Trans Arabian Investment Bank (R)	430 Park Avenue, New York, NY 10022. Tel 832 7137. Tx 662177UW.
EGYPT	
Arab African International Bank (A)	645 Fifth Avenue, New York, NY 10022. Tel 755 4810. Tx 42055.
FRANCE	
Banque Arabe et Internationale d'Investissement (BAII) (R)	499 Park Avenue, New York, NY 10022. Tel 308 0111. Tx 661719.
JORDAN	
Arab Bank (B)	520 Madison Avenue, New York, NY 10022. Tel 715 9700. Tx 238770.
KUWAIT AND KUWAITI-OWNED	
Gulf Bank (A)	520 Madison Avenue, New York, NY 10022. Tel 715 2300. Tx 425858IT.
National Bank of Kuwait	Opening shortly
United Bank of Kuwait (London Registry) (B)	Tower 56, 126 East 56th, New York, NY 10022. Tel 832 6700. Tx 645205.
LEBANON	
Bank Audi	600 Fifth Avenue, New York, NY 10020. Tel 307 5577. Tx 421 898.
SAUDI ARABIA AND SAUDI-OWNED	
National Commercial Bank (B)	245 Park Avenue, New York, NY 10167. Tel 916 9000. Tx 422037.
Saudi European Bank (R)	30 Rockefeller Plaza, New York, NY 10020. Tel 355 6530. Tx 640640.
Saudi International Bank (R)	520 Madison Avenue, New York, NY 10017. Tel 355 6530. Tx 640640.
UNITED ARAB EMIRATES	
Dubai Bank (B)	560 Lexington Avenue, New York, NY 10022. Tel 688 9494. Tx 428367ITT.
Middle East Bank (B)	330 Madison Avenue, New York, NY 10017. Tel 557 2500. Tx 238145.
Bank of Oman	503 Park Avenue, New York, NY 10022. Tel 644 5800. Tx 239881.
QATAR	
Doha Bank (B)	127 John Street, New York, NY 10038. Tel 509 4030. Tx 226605.
CONSORTIUM	
UBAF Arab American Bank (S)	345 Park Avenue, New York, NY 10154. Tel 223 1500. Tx 234589.

(A) Agency. (B) Branch. (S) Subsidiary. (R) Representative.

ARAB BANKING AND FINANCE XII

Abdullah Salih Al Rajhi

The cost of the collapse

IN AUGUST this year the Saudi Arabian Monetary Agency (Sama) announced a final date for the submission of claims on the Abdullah Salih Al Rajhi money exchanging establishment, which was closed by the authorities in July 1982. The date chosen is the end of Moharram 1404, about November 6 this year.

The announcement suggests that the firm of Whinney Murray, to which the claims must be submitted, is nearing the end of its work of computing Abdullah's debts and assets. When the accountant submits its report to the Sama committee which was formed immediately after the closure, the Abdullah Salih business will be liquidated.

The saga of Abdullah Salih began ten years ago when the young money exchanger broke away from the business of his father, Salih, and his uncle, Sulaimen, who are now the main shareholders in the famous Al Rajhi Company for Currency Exchange and Commerce. The elder members of the family were extremely upset by the breakaway and feared from the beginning that Abdullah would disgrace the family.

The youth set up his business in Dammam and expanded it rapidly until it had 30 or 40 branches, mostly in the Eastern Province. Like other exchangers in the Kingdom he bought and sold foreign currencies and drafts and eccepted current accounts from less sophisticated members of the public, who did not ask for interest to be paid on their balances.

With part of his assets Abdullah speculated in commodities, including gold and silver. He became particularly bullish on silver in September 1980 when the Iran-Iraq war broke out. Unfortunately, this was only a matter of weeks before the beginning of the silver price crash of that autumn.

When the collapse occurred Abdullah did not cut his losses and pay his creditors; he tried to make them good through further speculation. Like many other Arabian businesses, Abdullah's was a highly personal one: he lacked a professional management or any system of controls or stop losses.

House arrest

Eventually he began to run out of money to honour the drafts he was selling to foreign workers in the Kingdom. It was at this point that the Government closed his establishment, on July 17 1982, and asked Whinney Murray to report on the state of his business. Abdullah himself was placed under house arrest in Dammam, where he has remained ever since.

In the months which followed the collapse, which damaged the reputation of everyone else in the same business in Saudi Arabia, no criticism was too bad for the other exchangers to level at Abdullah Salih.

The thrust of the exchangers' denunciation was that Abdullah Salih was a neurotic compulsive speculator and a man totally unrepresentative of the other sober and upright members of the Saudi exchanging community.

The most unhappy losers from Abdullah Salih's closure were the ordinary foreign workmen, particularly Pakistanis and Thais, who had bought his drafts. In spring 1982 the Bangkok Bank, Thailand's biggest, paid some $3.5m of drafts which were not covered by funds in Abdullah's account with the bank; but at the end of May it stopped making payments. Drafts still held by labourers or their families were then valueless.

Within Saudi Arabia the banks and other exchangers seemed to escape from the episode without loss. A senior manager of National Commercial has said that his bank knew from the beginning of 1981 or earlier that Abdullah was in trouble. The elder Rajhis, the owners of the Al Rajhi Company for Currency Exchange and Commerce, had published newspaper edvertisements disclaiming all connection with Abdullah in the summer of 1980. They had also informally told members of the Saudi royal family that they suspected there would be problems with Abdullah's business.

Written off

International banks fared less well than the Saudi establishments. Among those which wrote off losses in the $2m to 5m range in 1981 or 1982 were Thomas Cook, Mocatta and Goldsmid, National Westminster, Lloyds Bank International and Johnson Matthey.

Worst affected was Kredietbank, the third biggest bank in Belgium. This bank had enjoyed a perfectly satisfactory relationship with Abdullah for some time, but in the early autumn of 1980 it made some forward purchases of silver for him. At the beginning of this year it was understood that Kredietbank was owed some $270m, of which $40m was accrued interest.

It was said at the time of Abdullah's collapse that Kredietbank had confused the Abdullah Salih al Rajhi Establishment with the Al Rajhi Company for Currency Exchange and Commerce, or that at the very least, it had failed to realise how deep was the rift between Abdullah and his elders.

The bank now says that its understanding of the link between Abdullah Salih and the main Rajhi company was complicated. But it freely admits that "along with everyone else" it believed that the Rajhis were one family and in the end would always behave as such. It felt that in the Middle East "a family was a family."

It also says that the story of the split in the family only came out after the collapse.

In theory, Kredietbank's exposure is covered by some $80m of silver bullion (at autumn 1982 prices) which it still holds and by some Saudi real estate which was used to guarantee Abdullah's borrowings. This real estate includes a prime site in the middle of Alkhobar, which in early 1982, when Saudi property prices were much higher than they are now, was said to be worth about $120m. Also included is an equally good site in central Jeddah, next to the headquarters of the Riyad Bank.

The problem with these guarantees is that they may not be valid. Foreigners are not allowed under any circumstances to own real estate in Saudi Arabia, or in any Gulf state. This has meant that where land is pledged as a guarantee to a foreigner another Saudi party must normally take responsibility for paying the recipient of the guarantee. In effect, if the guarantee is called the land is transferred to the other Saudi, who sells it and pays the creditor.

Before they were "Saudiised" the foreign banks in the Kingdom lent mainly on the basis of customers' reputations. Even though they understood how to realise land, they did not feel that it made a very useful type of guarantee.

Kredietbank has said in the last 12 months that its mortgages were properly registered with the notary public and that it has been taking steps to realise its collateral "in the usual Saudi Arabian way." It has also said that, like the split in the Rajhi family, the difficulties of realising real estate guarantees emerged only after the collapse.

In practice, it is certain that Sama's committee will decide that the first people to be paid after the liquidation of Abdullah Salih's assets should be the small current account customers and the Saudi and foreign holders of unpaid drafts.

Then it is suggested by some bankers and exchangers in the Kingdom that Sama will pay institutions, such as the Bangkok Bank, which became creditors through paying drafts which were not backed by funds in Abdullah Salih's accounts. One important exchanger remarked recently that Sama may distinguish between banks which honoured drafts or had supplied Abdullah with travellers cheques and those, such as Kredietbank, which took a more obvious risk by becoming involved in silver purchases.

Kredietbank concedes the logic of this reasoning and says that it thinks that the guarantees it holds should be useful mainly in putting it ahead of other banks that took risks similar to its own. Sama's official view has been that the validity of the guarantees will be a matter for the courts to decide.

It may well be that the issue will never be put to the test, because Abdullah has said recently that he has more than enough to pay all his creditors.

This interesting statement was made during an exchange of advertisements with Kredietbank which took place during the early part of this summer. It began with Kredietbank announcing in the newspapers that on a date in the near future it would be holding an auction of Abdullah's property in the banking district of Jeddah. Abdullah replied by placing a succession of advertisements saying that the bank had no right to do this because the matter was still in the hands of the Government. He added that he would be able to pay everyone and still have SR 500m left.

Exaggerated

It may well be that Abdullah's estimate of the size of his fortune is exaggerated. But Kredietbank thinks that Abdullah will certainly be able to meet all of his debts and some Saudi bankers say that he will still be gigantically rich afterwards, even if he may not be quite a riyal half billionaire.

The problem for the creditors may be in getting Abdullah Salih to sell his assets as quickly as they would like. It is known that Abdullah wants to keep his silver and real estate until the two markets improve.

Meanwhile, Kredietbank has written off et least half of its loss, so thet most of the money it may gain now will eppear in its accounts as profit.

Michael Field

ARAB BANKING AND FINANCE XI

Saudi Money Exchangers

Rajhi bank makes its bid

THE Al Rajhi Company for Currency Exchange and Commerce, the second biggest private financial institution in Saudi Arabia, is about to become the Kingdom's first Islamic bank.

The company has many more branches than any of the Saudi commercial banks. The deposits and current accounts it holds, interest-free, total SR 16bn — the same size as the accounts held with the Riyad Bank and about half the size of those held with National Commercial. When Rajhi emerges as a fully-fledged Islamic bank it will present a serious challenge to those two institutions and to all the other banks in the Kingdom.

Employees of the Al Rajhi Company and members of the family of Sulaiman bin Abdel-Aziz, who is the most important partner in the firm, say that the Rajhi Brothers have been thinking of turning their operation into an Islamic bank ever since they amalgamated their interests in 1978. It was then that the present main Al Rajhi company was founded by Sulaiman and three of his brothers, Salih, Abdullah and Mohammad, who had previously worked extremely closely with each other but had actually owned separate companies.

The idea matured in Sulaiman's mind under the twin influences of his desire to live in peace with his own conscience as he entered his fifties and his knowledge that a quarter of the world's population is Muslim.

It may also be that the billionaire exchanger saw Islamisation as a way of outmanoeuvring a much younger brother and two nephews (Abdel-Rahman bin Abdel-Aziz, Abdel-Rahman bin Salih and Abdullah bin Salih) who had broken away from his business in the mid-1970s and had established rival firms. It is even suggested that as and when opportunities arose Sulaiman remarked to senior members of the Royal Family that perhaps the entire money exchanging community should be regulated, reasoning that after the imposition of regulations he would emerge in better shape than his rebellious relations.

In 1980 Sulaiman established the Al Rajhi Company for Islamic Investments in London. This institution arranges deals under which the main Al Rajhi company can invest its funds in an Islamically acceptable fashion. This means buying and then leasing or reselling property and stock for companies rather than lending money and charging interest.

At about the same time that the subsidiary was established in London Sulaiman's managers claim that he began secret talks with the Saudi Arabian Monetary Agency (SAMA) and the Finance Ministry about forming an Islamic bank out of his operation in Saudi Arabia.

A little later, in December 1981, the Finance Ministry published a strict set of regulations to govern the operations of all exchangers in the Kingdom. In doing this it was influenced by the almost totally uncontrolled nature of the exchangers' dealings.

Working hours

For many years the exchangers had not only bought and sold foreign currencies and drafts; they had held the current accounts of ordinary Saudis, issued cheque books and stayed open late in the evenings to suit the working hours of the souq shopkeepers who held money in the exchangers' safes.

None of this activity was regulated by the central bank or the Finance Ministry and members of the public dealing with the exchangers were completely unprotected. Government agencies would not recognise cheques drawn on accounts with exchangers. When such cheques given to private citizens bounced the payees had no redress.

The exchangers would place their assets in whatever investments they liked and were not required to maintain liquidity ratios or keep funds on deposit with Sama, as the banks were obliged to do.

The regulations of December 1981 stated uncompromisingly that the exchangers should liquidate their current account operations within three years. They were also ordered to maintain certain levels of liquidity and to provide Sama with monthly statements of their affairs.

All of the exchangers, apart from the Rajhis, protested vigorously about the regulations. They claimed that they were virtually the only entirely Saudi businesses operating in the Kingdom, that they had emerged from Saudi society in response to the needs of the Saudi population and that their development should be encouraged — albeit with some regulation — and not stifled.

The mention of the needs of the Saudi population referred partly to the fact that there were many devout Saudis who felt not only that they should not take interest but that they would be in sin if they placed their funds with institutions (banks) that in turn put their money into interest-bearing investments abroad. These depositors were not entirely justified in trusting the exchangers.

Although the exchangers deploy large parts of their assets in foreign exchange dealing, property and other business activities, almost all of them also hold funds on deposit with Western banks.

While the other exchangers were complaining to Sama and trying to enlist the support of the Saudi religious leaders, Sulaiman Rajhi continued his negotiations with the authorities.

In June this year it was announced by the Ministry of Finance, using some fine Saudi phraseology, that the Al Rajhi Company could become "a public company for investment engaged in banking." The proposed charter of the company allows it to engage in all banking activities, so long as they do not conflict with the Shariah law, which condemns interest as usury.

Founders

The new institution will be owned 50 per cent by the Rajhi family, 2 per cent by its employees, 5 per cent by a group of founders and 43 per cent by ordinary members of the Saudi public.

Exactly who the founders will be has not yet been decided. The Rajhis have submitted a list of names to the Government but it is quite possible that the authorities will add or remove names. Nor is it known exactly when the new company will be floated. A likely period is the first quarter of 1984.

What the effects of the new institution will be on the established Saudi commercial banks is a subject of much speculation in the Kingdom. It may be that the Rajhi bank will do no more than keep its own customers and take on the customers who have been forced to leave the other exchanges, which are much smaller than the main Rajhi Company. It may also take some customers who have had accounts with the banks but who have not accepted interest. People in this last category are quite numerous but their accounts are not big.

If this is all the progress that the Rajhi bank makes there will emerge in Saudi Arabia two stable and parallel banking systems, one dealing with the traditional market previously serviced by the exchangers and the other dealing with the modern economy.

Alternatively it is possible that fashion and the dictates of people's consciences will enable the Rajhi bank to make inroads on the commercial banking system. In doing this the Rajhis admit that they will be at a competitive disadvantage because they will not be able to earn the same return on their assets and pay depositors as well as the commercial banks can. Even if an Islamic bank can lend long-term in an approved fashion it cannot easily earn money on its liquid holdings without accepting interest.

Most probably the Rajhi bank will encroach slightly on the commercial banks' territory—and as it is seen to encroach competition between the two types of institution may become quite vigorous. The battle will be fought with rival "Islamic banking products." Whenever the Rajhi bank produces a new scheme whereby depositors or other investors can earn money in a religiously acceptable fashion there will be pressure on the other banks to do the same.

Already bankers are noticing that a few customers are showing an interest in the Dar al Mal al Islami (Islamic Finance House) which has been promoted by Prince Mohammad al Faisal, the second son of King Faisal, and has its headquarters in Geneva. In Saudi Arabia the bank operates through a Sharjah-registered subsidiary called the Islamic Investment Company, which is allowed to collect money for Dar al Mal. Its presence in the Kingdom is more or less unofficial; it is regarded by the authorities as part of the business interests of Prince Mohammad.

It is feared by some bankers that the Dar al Mal operation in Saudi Arabia will eventually be "legalised" and will join Rajhi as a full Islamic bank.

The commercial banks in Saudi Arabia are ill-disposed towards Rajhi, Islamic banking and exchangers. In conversation they seldom fail to point out that the exchangers deal in interest for their own benefit and they say that the doubt whether the more ambitious firms, which are now diversifying into investment management, can provide the sophisticated services their advertisements say they can provide. Some of the banks have also had some unhappy dealings with exchangers, whom they accuse of sharp banking practices cloaked in a bogus air of naivety.

For its part, Sama is concerned about the Islamisation of the Rajhi business because it fears that it may one day lead to religious elements in the Kingdom putting pressure on it to Islamicise its own foreign investment operations.

It is possible that the money exchangers other than Al Rajhi that have recently been brought under Sama's authority will likewise develop along Islamic lines in future.

Confine

It is accepted that for the smaller firms the new regulations will mean exactly what they say; the firms will cease entirely to take current accounts and will confine their work to foreign exchange. But for the larger companies, which number about eight, it now seems that officially or unofficially some form of investment or Islamic banking operations will be allowed.

One option, discussed widely but in a very theoretical way, would be for several of the companies to amalgamate and to apply to Sama for the same Islamic banking licence that has been granted to Al Rajhi. It is thought that the Government would favour this solution. But the idea ignores the fact that the ages, personalities and levels of modern financial sophistication of the people running the firms are different.

There is also a fundamental cultural division between Nejdis and Hijazis.

Another possibility is that the more sophisticated exchangers will become investment managers. Already several of the companies, including Ahmed Hamad Algosaibi and Abdel-Aziz Sulaiman Mukairin, do this type of work on behalf of friends and other private clients.

So long as an organisation remains fairly small and inconspicuous it can undertake investment management work with virtually no supervision by the Government but if it begins to look like a proper investment bank the authorities will demand that it obtains a licence from Sama, which is not easy. For many of the exchangers the problem with diversification into investment management is simply that they totally lack experience in this field.

A third possibility is that Sama will issue some form of licence which will permit investment or wholesale banking, allowing most forms of business except the holding of current accounts and the clearing of cheques. This licence might also impose a minimum size on deposits and require exchangers to issue shares to the public.

There is no clear dividing line between the wholesale banking idea and the investment management idea. It is felt in the Kingdom that much of the thrust of the wholesale banks' development would be in offering various Islamic investment "products" to Saudis, just as the Rajhi bank may do.

The exchangers say that not knowing what the future holds for them is a problem. While they talk to Sama and wait for the Government's ideas to clarify they do not know what investments they should make for their firms' development.

One exchanger remarked recently that "something must happen in 1404," the Muslim year which begins on October 7. A banker said that he expects major developments in November.

Michael Field

LEADING SAUDI MONEY EXCHANGERS

Al Rajhi Company for Currency Exchange and Commerce

Owned by Salih (35 per cent), Abdullah, Sulaiman (42 per cent) and Mohammad bin Abdel-Aziz Rajhi, members of a Nejdi family from *Bukairiyah* in Qassim. Based in Riyadh, it has some 180 branches. Paid-up capital, excluding reserves, SR 600m; customers accounts SR 16bn. Investments of partnership include a building materials business run by Abdullah, large areas of property, shares in most Saudi public companies, and the Kingdom's biggest chicken company, Rajhi Sudais, in Qassim. Assets of partners estimated at SR 24bn in 1982—though Saudi property values have fallen since then.

In June 1983 the company was given a licence to turn itself into an Islamic bank, in which the Rajhi family will have 50 per cent, its employees 2 per cent, a group of founders 5 per cent, and the Saudi public 43 per cent.

Al Rajhi Trading Establishment

Established by Abdel-Rahman bin Salih Rajhi in 1973. Based in Dammam, with some 30 branches, about half of them in the Eastern Province. Big turnover in foreign exchange drafts. Founder has reputation for conservative professionalism, in contrast to his brother Abdullah Salih.

Al Rajhi Commercial Establishment for Exchange

Established by Abdel-Rahman bin Abdel-Aziz Rajhi, e much younger brother of Sulaiman Rajhi, in 1975. Based in Jeddah, with 22 branches, mainly in west and south-west of Kingdom. Capital SR 50m. Assets of owner in 1982 estimated at SR 400m.

Abdel-Aziz bin Mohammad Kaaki

Family from Mecca. Company based in Jeddah with three big and fairly independent operations in Jeddah, Riyadh and Eastern Province. Assets of owner derived from and backing money exchange business estimated in 1982 at SR 300m. Along with Al Rajhi Trading and Al Rajhi Commercial Establishment the Kaaki business makes up a second category of exchanger after the big Rajhi company. All other dealers have very much smaller foreign exchange turnovers.

The Kaaki family has a large and separate fortune linked to its 48 per cent shareholding in the National Commercial Bank. This is held by Abdel-Aziz bin Mohammad and two cousins, Saleb bin Mousa and Abdullah bin Mousa Kaaki.

Mohammad and Abdullah bin Ibrahim Subaiei

Family from Nejd. Headquarters in Jeddah, with five branches in Jeddah, Riyadh, Mecca and Medina. Relatively small turnover of foreign exchange drafts because of small number of branches. Family has trading operations which are at least as big as its exchange business. Assets of partners in 1982 estimated at SR 2bn.

Abdel-Aziz bin Sulaiman Mukairin

Family from Qassim, based in Riyadh. Two branches in Riyadh, run by Mohammad bin Abdel-Aziz, and one in Jeddah, run by Fahd bin Abdel-Aziz. Most of firm's activities involve dealing in gold and stocks and managing foreign investments for clients. Assets of owners in 1982 estimated at SR 800m.

Ahmed bin Abdel-Qawi Bamaodah

Family from Hadhramaut, in what is now southern Yemen. One very big office in Jeddah. Big business in Yemeni remittances; also major trading in gold, wheat and rice.

Ahmed Hamad Algosaibi and Brothers

Family originally from Nejd, now based in Alkhobar with business confined almost entirely to Eastern Province. (Not related to Algosaibi family of Saudi Minister of Industry or former Deputy Governor of Sama.) The Algosaibi Money Exchange Bureau, established in 1980, is only a small part of the Ahmed Hamad Algosaibi partnership. The firm is owned by Ahmed, Abdel-Aziz and Sulaiman bin Hamad Algosaibi and has a major trading operation importing steel pipe and machinery, much of it for sale to Aramco. It also owns the Algosaibi Hotel, the Eastern Province Pepsi-Cola franchise and a big shipping agency business. The exchange part of the business has the Saudi agency for American Express. It is linked to the family's foreign investment division and is gradually developing investment services on behalf of clients.

Ali Hazza and Company

Family from Ghamid tribe in south-west. Based in Jeddah with three branches—two in Jeddah and one in Riyadh. Assets of owner estimated in 1982 at SR 200-150m.

Note 1 All exchangers are general partnerships.
Note 2 In Jeddah there are at least 30 small money exchanges who are not listed here. Many of these people, including the Baghalaf and Amoudi families, are from the Hadhramaut. Most of them have commercial interests other than exchange.
Note 3 The Rajhi company that collapsed in 1982 was the Abdullah Salih Al Rajhi Establishment, which is not to be confused with the three Rajhi companies listed above.

ARAB BANKING AND FINANCE XIV

The Three Ks

Role in rescuing investors

THE LAST 18 months have not been the easiest for the three semi-state investment companies known collectively as tho Three Ks: the Kuwait Foreign Trading Contracting and Investment Co. (KFTCIC), the Kuwait International Investment Company (KIIC) and the Kuwait Investment Co. (KIC).

Because a large part of their investment portfolios and general activity is still tied up in their own local market, the three companies have found themselves inextricably bound up with the Souk al Manakh disaster. The cut in government expenditure has also affected general domestic trading conditions in Kuwait and the local real estate market, in which all of them are deeply involved, has been left in a state of uncertainty because of the muddle on the stock markets.

All three companies have been left holding postdated cheques from the two local stock markets, and in one case, KIC, the face valne of notes receivable is $316m. There can be no assessment of the value of these cheques until the settlements ball begins to roll. None of the companies disclose in their balance sheets whether they have been left with Gulf shares.

In recent months, two of the Three Ks, KFTCIC and KIC, heve become involved in efforts to find e solution. Earlier this year, the Government asked the companies to help re-finance those investors who could emerge solvent from tho crisis, but were suffering from short-term liquidity problems. Shares from the official market and real estate were counted as collateral in the scheme.

No information has emerged from the Government as to how many investors have taken advantage of the re-financing project, but in the summer a $200m one-year loan was reported to have been syndicated by the six banks for the operation. KFTCIC refuses to confirm the deal, however.

The Souk al Manakh problem has also affected the Three Ks in one other way. Following its support policy on the official market, the state has now substantially increased its stake in the investment companies. The KFTCIC says it is now 94 per cent owned by the Government, while the Government stake in KIC is reported to have risen from 51 per cent to 61 per cent. The KIIC, which originally had no state shareholding, is now 20 per cent government-owned.

The share buying is continuing, but none of tho Three Ks believes that the state is aiming for full ownership.

The stock market crisis has also affected one of the traditional areas of activity for the three Ks, the Kuwaiti dinar bond market. The market has remained more or less closed, epart from one issue this year for the United Bank of Kuwait, which was lead managed by KIIC. The floating rate note was for KD 5m ($17m) with a warrant to buy KD 5m more at 10 per cent per annum. The bonds are due in 1990. This one issue in 1983 compares with seven issues in 1982.

Politically, the re-opening of the KD bond market might be problematical, for in the public's mind the issue of new paper means the outflow of local currency to overseas borrowers. At a time when large numbers of Kuwaitis face bankruptcy, any new issues might be sensitive.

Too pre-occupied

Further, many of the institutions and individuals who might have been in the bond market are too pre-occupied sorting out their post-dated cheques and containing the damage of the Manakh.

With an interest differential of 1 or 2 per cent below dollar rates, KD bonds could be attractive to borrowers, but the Three K's are virtually unanimous in agreeing that this might be the time "to cool it a bit" on the KD bond market.

Looking ahead, though, the omens for the market look auspicious. First, once the stock exchange problem begins to near a settlement, there will be a demand from Kuwaiti investors for solid, long-term investments—rather than "chicken farms that don't breed chickens," as one financier in Kuwait put it.

While recognising the opportunity that will present itself next year, once people start getting paid and liquidity returns to the market, investment officials say there is still a lot wrong with the market. They point to its smallness and artificiality, the small yields, and the existence of only one market maker, the Arab Company for Trading Securities.

Prospects for another company being set up look bleak, for the cost of financing outstrips the yield on the actual bonds. Investment officials believa there has to be greater sophistication in the local money market before this situation can change.

On the international side of their operations, there has been some re-orientation and changes in investment policies. The KFTCIC and KIIC both say that, in common with banks elsewhere, they have been slowing their syndicated lending, particularly to sovereign borrowers. The KIIC appears to be taking a close look at regional possibilities, while the KFTCIC wants to do more commercially-orientated lending.

Also, the KIIC substantially trimmed its international bond activities last year while the KIC, in contrast, continued its emphasis on bond market ectivities in greater volumes than ever before.

Kathy Evans

KIC

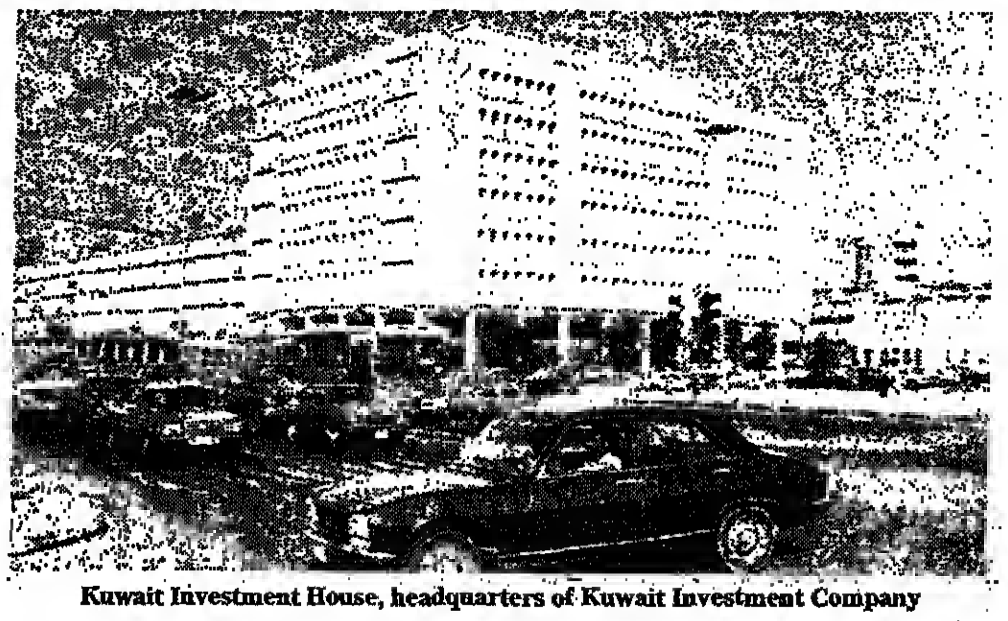
Assets and liabilities: 1982 KD 362m, 1981 KD 294.6m. Net profit: 1982 KD 6.4m, 1981 KD 6.1m. Post-dated cheque situation: KD 93.6m listed as notes receivable.

With an island off South Carolina and an botel complex in Atlanta, Georgia, the KIC is perbaps tho most exotic of the Three Ks. However, the bulk of the company's ectivity is still in international bonds, as it has always been. In 1982 KIC lead managed and co-managed some 50 international issues totalling $5.7bn. This compares with $3.8bn in 1981, a 48 per cent increase.

The Atlanta complex generated $40.7m in revenues, mainly from its Hilton hotel—despite the effects of the U.S. recessiou and the American football strike, KIC's balance sheet notes. However, its Kiawah Island company showed a drop of 24 per cent in sales, which by the end of last year totalled $42.2m. Senior KIC officials say they will not be looking for any further investments in real estate overseas for the time being.

With some KD 92m being held as notes receivable, largely postdated cheques, KIC says it will not know its position until the settlements between stock investors begin. However, very little of the amount was outstanding from the large traders, say officials, and the investment portfolio in Gulf shares was not significant.

On its local real estate investments, the KIC concedes that the market is slack, bot it believes that in 1984, wben settlements start and people begin receiving money, prices will begin to move up egain.



Kuwait Investment House, headquarters of Kuwait Investment Company

KFTCIC

Assets and Liabilities: 1982 KD 787m, 1981 KD 601m. Net Profit: 1982 KD 9.8m, 1981 KD 8.3m. Post-dated cheque situation: not mentioned in balance sheet, but said by officials to be "negligible."

The KFTCIC was originally established as a vehicle for Kuwaiti investments in the Arab world and Africa, but a change in policy in 1974 has led to a concentration on international financial investments. It now has interests in some 60 companies, though 25 to 35 per cent of its activities are still in the local market, says Hisham Razouki, chief of credit syndication. This local content could go down in future, he added.

On the international side, the KFTCIC has decided to cut out any further participation in loans for sovereign borrowers, and in future it intends to concentrate on strictly commercial lending and loans for selective corporate borrowers. In 1982 it lead managed 14 local loans and ten international ones, totalling KD 311m compared with KD 219m in the previous year, a 42 per cent increase.

In marketable securities, the company lead managed five, co-lead managed two and co-managed 26 issues in various currencies. The nominal value of these amounted to KD 753m last year compared with KD 751m in 1981.

Direct investments expanded considerably to KD 43.4m from KD 18.7m during the same period, with most of the activity concentrated in the Gulf regional area and Kuwait. Mr Razouki says he is looking for direct investments which offer a quick return.

Outside the area, the KFTCIC established two investment companies, Asian Oceanic Holding company based in Singapore, and Credit de Bergues in Switzerland. Both institutions are intended to act as vehicles for identifying investment opportunities in their region. So far though, the KFTCIC has no such vehicle in the U.S.—which could be remedied before long, says Mr Razouki. The company would be looking for long-term investments there.

KIIC

Assets and Liabilities: 1982 KD 181.9m, 1981 KD 178.4m. Net profit: 1982 KD 8.28m, 1981 KD 6.66m. Post-dated cheqoe situation: KD 29m in receivables.

The slowdown on international loans witnessed at KFTCIC has also taken place at the KIIC. Although the company lead-managed loans and floating rate notes totalling $1.6bn in 1982, Eurocredit activity was restricted to participations in only five international issues totalling $441m.

The thrust of activity has been pan-Gulf, with the KIIC becoming involved in such deals as tha $300m credit facility for Gulf Petrochemical Industries Company of Bahrain and three other syndications totalling $390m. The company was also active in the local market in 1982, joining in 12 syndications with a total value of KD 179.9m.

Bond activity slowed in comparison. KIIC managed 22 new issues last year, totalling $695m, compared with 62 issues worth $3bn the previous year. Company officials say there was a heavy and disproportionate ratio of bonds on the balance sheet. However, one of the major reasons for the decline of activity in this area was due to changes in fiscal policy in Japan. Only eight new issues were raised for Japanese borrowers last year compared with 26 the year before.

Direct investments totalled KD 18.8m compared with KD 14.4m in 1981, with the bulk, over 55 per cent, in financial and banking institutions.

ARAB BANKING AND FINANCE XIII

Kuwaiti Banking

Clouds stay after traumatic year

"I WOULD like to see the big stock market traders hanged, drawn and quartered and a national holiday declared," commented the general manager of one of Kuwait's six banks. That somewhat bloodthirsty remark illustrates the sentiment and the anger which is felt among bankers about the Souk al Manakh crisis and the implications it holds for the country's banking system.

Few people, apart from the Central Bank and the Finance Ministry, know exactly how much the banking system was involved, and at risk, as a result of the problem. However, what has been clear since the onset of the crisis is that in terms of reputation both Kuwaitis and Kuwaiti banks have been mauled by the catastrophe.

When the collapse occurred on the exchange in September, 1982, and the cheques totted up, delegations of foreign bankers began descending on Kuwait to question government officials about the solidity of the banking system. Hitherto, the reputation of Kuwaiti banks had been one of wealth, fat deposits and millions of dollars of hidden reserves.

By February this year Abdlatif al Hamad, the then Finance Minister, felt it necessary to reassure the public and the Press that whatever happened on the stock market problem the Government would be there to protect the banks.

By the beginning of the summer concern was at a peak. General managers of banks began receiving calls from Kuwaitis worried about the safety of their money. Many observers in Kuwait believe that the most important reason for the Government's anxiety to secure approval from Parliament for the premium law was its fears for the banking system as a whole.

The blame for this reversal in reputation lies not with the banks at all. Their actual involvement in a direct way, discounting cheques or accepting them as collateral, is, in fact, negligible. One banker has been informed officially that at the time of the crisis only KD 360m of the total bank credit was tied up in this way. This represented only 5 per cent of the total.

Kuwait's Finance Minister at the time of the collapse, Abdlatif al Hamad. He gave assurances that whatever happened on the stock market, the Government would protect the banks.

KUWAITI BANKS' PERFORMANCE

Profits	1980	1981	1982
Gulf	5,818(+37.7%)	7,911(+36.0%)	11,677(+47.6%)
National	12,500(+31.6%)	16,000(+28.0%)	20,000(+25.0%)
Commercial	7,442(+36.6%)	11,618(+56.1%)	15,325(+31.9%)
Ahli	4,029(+13.0%)	6,752(+67.6%)	10,473(+55.1%)
B.K.M.E.	3,524(+28.5%)	4,497(+27.6%)	6,582(+46.1%)
Real Estate	4,128(+37.9%)	5,199(+25.9%)	6,474(+24.5%)
Burgan	1,886(+ 9.0%)	3,829(+103.0%)	3,829(+16.8%)
Total	36,327(+19.5%)	55,807(+53.6%)	74,902(+34.2%)
Profits per Share			
National	0.558(+14.3%)	0.596(+ 6.8%)	0.572(− 4.0%)
Gulf	0.388(+ 7.2%3	0.452(+16.5%)	0.458(+ 1.3%)
Commercial	0.364(+21.3%)	0.474(+30.2%)	0.521(+ 9.9%)
Ahli	0.268(− 9.8%)	0.409(+52.6%)	0.437(+ 6.8%)
B.K.M.E.	0.367(+28.3%)	0.307(−16.3%)	0.393(+28.0%)
Real Estate	0.295(− 9.2%)	0.331(+12.2%)	0.316(− 4.5%)
Burgan	0.135(−22.0%)	0.273(+102.2%)	0.212(−22.3%)
Average	0.339(+ 6.3%)	0.406(+19.8%)	0.416(+ 2.5%)

Source: Euro-Kuwaiti Investments.

Warning

Long before the speculative bubble burst last autumn, the Central Bank had been continually warning banks not to get involved. A directive was subsequently issued to reinforce the verbal warnings forbidding banks to accept postdated cheques or Gulf shares as collateral. An earlier regulation from the authorities required all loans backed by real estate and official shares to be covered to the tune of 200 per cent of their value.

Such manoeuvres at an early stage largely protected the banking system from the full impact of the problem. This is largely the result of the efforts of the former Central bank governor, Hamza Abbas Hussain.

Although the banks' direct exposure may be minimal, the repercussions of the crisis for them are manifold. Firstly, a sizable portion of the credit extended to clients for specific purposes may in fact have ended up on the stock market for speculative dealing. Monitoring the activities of individuals who are directors of many companies can be difficult.

There were also reports of companies attempting to make profits on construction contracts by using their advance payments to play the Manakh exchange.

New industrial concerns were said to be investing the advances received from the Industrial Bank for materials purchases on the stock market. Furthermore many analysts suspect that a good part of the personal overdrafts, which account for about one third of all lending, may have been diverted in this way.

The Kuwaiti banking system has a reputation for unsecured name lending. Until recently the system worked remarkably well, for the Kuwait merchant community is small, discreet and inter-related. There are some individuals from whom bank managers would not even ask for a balance sheet, their reputation and standing being sufficient testimony to their solidity. This sector of Kuwait, known as "old money," did not become involved in the Manakh exchange, though it will inevitably be affected if large numbers go broke.

However, the second rank of investors, whose wealth can be traced back only a decade or so, did become involved.

Nowadays it has become a fashionable activity to criticise these "new money" individuals, despite the fact that they constitute the nucleus of the commercial community in Kuwait. Their fate cannot be assessed until such time the Arbitration Panel is able to work out the worth of the big eight dealers. However, when the big dealers are declared bankrupt, which seems almost inevitable, they could take a lot of others with them. It is this rollerball effect which bankers fear most.

As for the big dealers themselves, the banks' involvement was almost nil. As one bank manager contemptuously commented: "They were the kind of people who couldn't borrow money from banks." The development of the post-dated cheque system on the Manakh was, after all, a system of artificial credit.

Commerce ministry officials say they are expecting several hundred bankruptcies as a result of the crisis. At the time of the Parliamentary debate, the figure most talked of was 500, but now Jassim Marzouk, the Commerce Minister, believes the figure may be much less.

The Government is not intending to take any further action on the problem, unless the effects of bankruptcies is deemed sufficiently worrying.

Until the exact figures emerge from the Arbitration Panel, bank managers can only speculate on future loan losses.

Another factor for concern for the banks was the question of official shares as collateral. The share price collapse on the Manakh market was mirrored on the official exchange, although the decline was not nearly so steep.

In order to protect the value of this collateral, the Government initiated last October its price support fund. That support continues today. So far around $2.2bn has been spent in this way. Many investors are now wondering what is going to happen when the support is withdrawn and prices decline once more.

Squeeze

The Manakh crisis also had a major effect on local interest rates. Last winter, at the prodding of the Government, the commercial banks came to an informal, but written, agreement that interest rates should be pegged at 8 per cent on deposits and 10 per cent on advances. Previously, local rates had been up at international levels, and overnight interbank rates were nearly double what they are today, around 6 per cent. Local bankers say that, although all rates have come down, margins have been slightly squeezed.

A major factor in the decline in local interest rates was of course the massive injections of liquidity from the Government. Shortly after the Manakh collapse, some $1bn was deposited into the system, and further amounts have been received since. This naturally softened local interest rates as the Government desired. The Government also made it clear that it did not want to see the banks pressing anyone for repayment of loans at this difficult time.

Until the settlements begin and payments start being received from the insolvents, demand for credit is likely to remain flat. A decline in demand has been apparent for some time now, though 1982 credit figures were high because of demand for funds for share dealing.

The recent decrease has been particularly noticeable in the letters of credit business, which bankers say has been either flat, or showing a drop of between 5 and 10 per cent.

This is partly the effect of the stockmarket collapse, but also the re-export trade with Iraq has been stagnant, and local stocks are high. Total bank credit stood at KD 4.4bn in July this year, virtually the same, as at the beginning of the year.

The picture is reflected in deposits. In July 1983 total deposits stood at KD 4.3bn compared with KD 4.16bn in the same month of the previous year. Some banks even witnessed a decline in deposits last year.

During the month of July, demand deposits dropped 7.2 per cent over the previous month (largely because of demand for summer vacations), while time deposits showed a 2.8 per cent increase, as people awaited the outcome of the settlement negotiations.

This gloomy picture on credit business is likely to lead the Kuwaiti banks to be more active in the international money markets and in the syndicated loan and bond business. This has already become apparent at the National Bank of Kuwait, which so far this year has lead-managed 11 issues totalling $1.2bn, virtually the same as in the whole of last year. The bank has also been active for the first time in international securities issues in a management and co-management role. So far its involvement has embraced eight issues.

During the past 12 months, NBK has expanded its international network. The Singapore branch is opening at the end of this year, and a full banking licence has been applied for in New York. NBK has also been active in financing short term credit lines for oil purchases, not only for sales of Kuwait's oil, but for other Gulf producers as well.

Nevertheless, the Manakh problem is going to cause a setback for the Kuwaiti banks, a setback, that is, from the normal fantastic rates of growth seen in previous years. In the years 1980 to 1982 total profits of the six banks grew by 19.5 per cent, 53.6 per cent and 34.2 per cent. The more pessimistic analysts project that these figures could be as low as 10 per cent in the next two years.

Undoubtedly, the hidden reserves of the Kuwaiti banks will be called into play, though bankers maintain that provision for the expected loan losses will come from new income, and that the historic reserves will not have to be touched.

The next 12 months, however, do look a little brighter for local business as a whole. Firstly, during that time people will start being paid by their creditors as the settlements begin, and the pace will pick up.

Secondly, some bankers are hoping that the Government may choose the opportunity of the next budget to reinject an element of confideoce into the economy. The Government budgets in the last 18 months have been marked by a decline in expenditure growth, but now as oil production is increasing, a bumper budget in July 1984 could be on the cards.

Other bankers take the view that yielding to such a temptation would be a very great mistake for the government. "There has to be more bloodletting before Kuwaitis fully absorb the lessons of the Souk al Manakh," remarked a leading Kuwaiti bank executive.

Speculation

The crisis has also taken its toll at the top in terms of leading personalities in the financial sector. There are reports as yet unconfirmed by any official statemeot, that the long serving governor of the Ceotral Bank, Hamza Abbas Hussain, has resigned. The Government is reported to be attempting to persuade him to stay on his post.

Meantime, speculation is centering on Ali Rushaid al Bader as a possible next governor. Mr Bader is a member of the Arbitration Panel and general manager of the Real Estate bank. He is much admired in local banking circles.

Until a fortnight ago there was also a vacancy in the post of Finance Minister. Abdlatif al Hamad, the much respected Finance Minister, handed in his resignation in early August, and, after appearing to hesitate, the Government has given the post to Shaikh Ali Khalifa, making him Minister of Finance and Oil.

Kathy Evans

Qatar

Growing in confidence

QATAR'S banking market is primarily domestic, but there are signs that the three locally-owned commercial banks are becoming more internationally-orientated as they grow in confidence and strength.

In May, Doha Bank became the first Qatari financial institution to open a branch in New York, although it was itself established less than four years ago. Its achievement in so quickly becoming the second largest of the 13 national and foreign banks arouses a mixture of admiration, envy, and suspicion among its less profitable rivals.

The older and more conservativa Qatar National Bank (QNB), which is 50 per cent Government-owned, opened offices in London in 1976 and in Paris in 1978, but the objective seems to have been to "fly the flag" and to serve its Qatari clientele abroad rather than take on a substantial volume of new business.

Qahtan Al Masri, the assistant general manager at the Doha head office, puts purely international operations at under 10 per cent of the total. Further overseas expansion is not a priority, although QNB is assessing the possibilities of Egypt, India and Switzerland, as well as New York.

Competition

Commercial Bank of Qatar is also thinking of branching out into a centre—perhaps Houston or Seoul—where there is not already strong Arab competition. But its plans to diversify into international syndicated lending have been put back to await a more propitious time.

All the Qatar-based banks are pre-occupied with the shortage ofg domestic liquidity, although the authorities have accused some of them of exacerbating it by switching funds abroad in search of higher returns. In 1980, the Qatar Monetary Agency (QMA) annulled an existing interbank agreement and set local deposit and lending rate ceilings of 7 per cent and 9½ per cent as part of a deliberate policy of containing inflation.

Although the differential between riyal and dollar interest rates is narrower than last year, it is still attractive (given the minimal exchange risk) both to private investors and to banks with uncommitted funds, and few of the errant deposits have come back.

1982 RESULTS OF COMMERCIAL BANKS IN QATAR

(In Qatar riyals/millions: U.S.$=QR 3.64)

	Paid-up capital	Reserves	Assets ex. contras	Loans & advances	Customer deposits	Net profit after tax
Qatar National Bank	56	418*	5,665	2,561	4,025	79.5**
Doha Bank	52.5	56.6	1,019	292	789	48.8**
Arab Bank Ltd.	5	12.8	820	193	686	10.5
BBME	5	5	760	380	704	6.4
Grindlays Bank	5	6.4	644	483	570	1.4
Commercial Bank of Qatar	45	32.4	302	234	383	24.6**
Bank Al Mashrek	5	5	458	120	380	5.4
Chartered Bank	5	11.5	338	177	292	5.7
United Bank Ltd.	5	8.7	228	75	206	3.0

* QNB has additional inner reserves ** Local banks pay no tax

Paribas, Bank of Oman Ltd., Citibank and Bank Saderat Iran did not volunteer information

Table compiled by Mary Frings

Meanwhile, Government spending has been severely curtailed with current budget allocations 30 per cent down on last year. Not only are there fewer new projects in the offing, but outstanding payments are months in arrears—including the last instalment of Hyundai's $170m bill for the construction of the Doha Sheraton, where the Amir of Qatar is to host the Gulf Co-operation Council summit conference early next month.

One banker predicts a flood of government disbursements just before the summit, but others argue that all Gulf oil-producers are facing financial stringency and have no need to hide their problems from each other.

Oil barter deals have been agreed with Japanese and South Korean contractors on the Ras Abu Fontas power station project, and this may set the pattern for the $6bn North Field gas development, which at some time in the future will put the entire economy into higher gear. But for many smaller companies the cashflow situation is becoming critical and their credit is fully extended.

Within the limits of prudence—and occasionally beyond them where a long-standing customer-relationship is at stake — banks with a real commitment to the local economy are providing bridging finance to companies awaiting government payments. QMA statistics show a widening gap between loans and local currency deposits, highlighting the difficulties faced by these banks in funding their lending at economic cost.

At the end of December, credit facilities amounted to QR 5,576m, local currency deposits to QR 4,501m and foreign currency deposits to QR 3,352m. By May, the latest month for which QMA figures are availabla, credit was up to QR 6,244m while riyal deposits had shrunk slightly to QR 4,441m. Foreign currency deposits were also down at QR 3,128m. There is no currency breakdown for credit facilities, but supposing that 10 per cent might be in dollars, the banking system as a whole is still 27 per cent over-lent against its riyal deposits.

The QMA does not offer a swap facility to alleviate temporary liquidity shortages, and a long-discussed proposal for the discounting of bills awaits a decision at the political level. The only comment that Mr Majed Al Majed, the QMA Director General, would make on the possible outcome was that "the government is very concerned about the activity of the economy and the health of the banking system."

Constraints

Apart from the constraints on profitable lending, banks are being squeezed on the trade financing side. One reports business 30 per cent down in the first half of this year, against the comparable period of 1982, while the QMA statistics show a 15 per cent drop in contra accounts between December and May. In addition to the fall-off in imports of construction materials and heavy equipment, there has been a reduction in demand for consumer goods as contractors let go their expatriate labour.

What does slightly worry those banks which benefit from government custom (Grindlays, the British Bank of the Middle East, Chartered, Arab Bank and Bank al Mashrek, as well as the three national banks) is the emergence of two new locally owned banks. It is feared that these banks will eat into the established houses' share of state business.

One of the new institutions is the Qatar Islamic Bank, which opened at the end of Ramadan with an authorised capital of QR 200m, of which QR 50m is paid up. It will concentrate on financing commodity imports and the development of small businesses, and in direct investment in projects and real estate. The bank is expected to appeal mainly to people who hitherto have had no dealings with the commercial banking system.

A number of devout Muslims have used the conventional *riba* ("interest") banks and have declined any interest due to them, but, taken as a whole, the proportion of interest-free deposits, as distinct from current accounts, in the system up to now has been minimal.

The foreign banks probably have less to fear from QIB than from the Al Ahli Bank, which will open early next year under the management of Mr Lesley Cant, a long-serving former manager of Grindlays in Qatar, who has all the advantages of local knowledge and customer contracts.

Al Ahli's issued capital of QR 30m has been fully subscribed, despite the liquidity shortage, and already there are plans for an increase to broaden the ownership base.

Mary Frings

Egypt

Seeking international status

EGYPT — "mother of the world" — has been pricked by the success of upstart sons in the Gulf to make a bid to become a regional and international financial centre.

Many Egyptian bankers at a recent conference in Cairo on capital market developments expressed almost unalloyed faith that Egypt could rival Bahrain as a centre for short-term finance and Kuwait for long-term finance.

Muhammed Nabil Ibrahim, deputy chairman of Bank Misr, one of Egypt's four public sector banks that handle over 70 per cent of banking operations in Egypt, confidently declared that if Egypt were compared with other countries then it was much better placed to be a regional finance centre.

Among the reasons he gave were its strategic location, its political, social and economic stability, its ideal climatic conditions, its important local market of 46m people, the availability of skilled personnel and the protection of investments.

Such optimism is in part a reaction to the realisation that Cairo, which in the 1940s had the eighth largest stock market in the world, has been overhauled by Gulf Arabs blessed with oil wealth when Egypt is still governed by financial institutions and regulations set up under the nationalisation programme of Nasserist socialism in the 1960s.

Other senior bankers reiterate their confidence that Egypt can become a world trade and finance centre. Dr Mustapha Khalil, a former Prime Minister and chairman of the Arab International Bank, a treaty bank based in Cairo, feels that Beirut is no longer qualified because of the situation there and that Cairo, while not able to compete with Bahrain could complement other financial centres.

But he points out that many bureaucratic constraints hinder the establishment in Cairo of such a centre.

Other commentators at the conference were less convinced. Vinod Dubey, the World Bank's chief economist for Europe, the Middle East and North Africa, speaking in a personal capacity, recognised that Egypt had the potential to become a financial centre but this was only the start of its realisation.

He pointed out that such a plan would incur costs as well as benefits. "Sound economic policies bring international perception of firm management but delays in tackling structural problems in the economy were bad for the country's image of efficiency. The establishment of a finance centre would also imply a certain openness and a decrease in the dualistic nature of the economy."

Another former Prime Minister, Dr Abdel Aziz Hegazy, was less bound by diplomatic niceties and World Bank-speak. "How can we speak of Egypt as a regional and international finance centre when we close our doors to Arab Banks? We have to determine the economic system for our banking system first. What can we do with the multiplicity of exchange rates and the restriction on the transfer of currencies?"

Unify

Just before an International Monetary Fund mission made a visit to Egypt in part to ask what measure Egypt was taking to unify its exchange rates, the Central Bank issued unwritten guidelines to public sector banks that they could buy dollars on the free market at their discretion for up to 108 piastres (one Egyptian pound equal 100 piastres) effectively introducing yet another rate intended to attract remittances of workers abroad, who were exchanging on the free market where the rate fluctuates seasonally between 112 and 120 piastres. The official rate is one dollar to 84 piastres with a special rate for supply commodities—one dollar equal to 70 piastres. Other rates apply for trade with the Eastern bloc.

Foreign bankers characterise the call for the establishment of an international finance centre in Cairo as "pie in the sky."

The championing of Cairo as a future regional finance centre reflects the Egyptian Government's desire to exploit every potential source of income. But equally the freedom of movement of capital and deregulation it would pre-suppose runs counter to the current trend of greater central planning to correct the course of the "laissez faire" economic policies launched with the late President Sadat's "infitah" or open door.

The call for the revival of the Stock Market in Egypt is another government attempt to attract more domestic savers to move their savings out of time deposits at the banks into productive investment.

Like so many campaigns in Egypt the call for a revived Stock Exchange came from above as Government economic policy, rather than in response to a ground swell of pressure from below of small entrepreneurs.

So when the Ministry of Investment proudly announced that by the end of the year 100 new joint stock companies will have been registered on the Stock Exchange the figure is largely meaningless.

Registration is a mere formality, stocks and shares are seldom traded. Most businesses are small family concerns of joint ventures with fixed shareholdings that no partner wishes to sell.

Steps have been taken that have encouraged domestic savings. Higher interest rates on local currency deposits in part explains why total bank deposits are over E£12bn, compared to E£800m in 1970, according to the Minister of Economy.

The Ministry has also set ceilings on lending to finance commercial activities in a move to redirect the economy away from trade financing towards productive investment.

Parallel with this have been the usual call for banks, especially foreign banks, to take a greater role in the development of the country.

A number of foreign banks seeing the way the wind is blowing have formed joint ventures which may deal in either Egyptian pounds or foreign currencies.

Charles Richards

ARAB BANKING AND FINANCE XV

Trading on the floor of the present Kuwait Stock Exchange, soon to move to a $48m new home

The Souk collapse aftermath

Fraught times for the new SE

THE PRESENT headquarters of the Kuwait Stock Exchange lies in a storage basement of an old commercial Souk. The premises, which were borrowed from the shops and money changers upstairs, are humble indeed, considering the attention the Stock Market commands in the minds of so many Kuwaitis.

The atmosphere on the floor is desultory and jaded. Brokers sit round sipping tea to pass the time. Practically the only buyer in the market is the Government and even that is cutting down on its share purchases.

Things have been like that ever since October 1982, shortly after the catastrophe of the Souk al Manakh happened.

Across the road, however, lies the luxurious new headquarters of the future Kuwait Stock Exchange. Built at a cost of $48m, the new exchange stands like a citadel in the downtown commercial area, with a facade of $8.5m worth of polished granite quarried from the wilds of Dakota. The new stock market will be equipped with a communications and computer system costing $9m to provide listings of local shares and major price movements in London, New York and Tokyo, as well as precious metals prices.

Monument

The construction of this new home for the official stock market is virtually finished, but as completion day gets nearer, the building begins to look more like an embarrassing monument to the shambles which prevails in the market. The Commerce Ministry says it is planning to move into the new headquarters by the middle of next year, by which time it hopes to have a regulated and stable market.

It is perhaps that deadline that has brought a new sense of urgency to the Government's plans to establish a code of ethics and regulations for the new exchange. Already, a committee of commercial, financial and municipal officials has been established to act as a governing body, and Khalid Kharafi, a former Under-Secretary at the Commerce Ministry, has been nominated as market manager and deputy chairman of the exchange. An Emiri decree gave the committee three months to write the regulations.

The legislation as published so far appears to give the exchange wide scope for its future operations. The market will be able to list not only Kuwaiti and non-Kuwaiti companies, but also bonds and securities issued by the Government, and the securities of non-Kuwaiti companies.

KD bonds

The idea of KD bonds being traded on the official exchange has already generated a flurry of interest among the institutions already in the market.

Other parts of the Emiri decree call for the monitoring of all forward deals on the exchange. No mention has been made so far of post-dated cheques, though brokers are assuming that such methods of payment will be banned.

Even so, local financiers are pondering what the chances are of a stable, regulated market ever being created in Kuwait. Even if the exchange is governed by the finest codes and regulations ever written, there first has to be the political will to enforce them. In the two stock market crises, of 1977 and 1982, this factor has been sadly lacking.

The two events, and the way the Government handled them, do not provide auspicious omens for the new market. Many local financiers believe that perhaps the greatest mistake was made in 1977 when the state moved into the market to buy up shares to support prices. A collapse in the market had led to large losses, and investors had demanded a bail-out.

This had two results. Firstly, investors were given the idea that if something went wrong in the market again, the Government would be there to rescue them.

Secondly, a substantial part of the market ended up in government hands, thereby limiting further the already narrow avenues for local Kuwaiti investment. The state never resold its holdings.

The new premium law for forward deals which has followed the crisis on the Souk al Manakh exchange has left the same flavour of protection in the market. Although there seemed to be no other way to avoid a wave of bankruptcies, many observers feel that the law has meant that the penalties of abusing a stock market will not be felt sufficiently by investors. Many predict yet another crisis five years hence. This is a view shared by the Finance Minister, Abdlatif al Hamad.

Another problem for the new exchange will inevitably be the sheer volume of funds which will chase the shares. The official market and the semi-illegal exchange, the Souk al Manakh, list less than 50 companies each on their markets. Furthermore most of the trading activity is concentrated on a handful of prime stocks, namely the banks, insurance, real estate and investment companies. Transactions in other stocks are infrequent. The bank stocks alone account for 40 per cent of the market.

With so much money going into so few shares, local brokers liken the situation to trying to squeeze two bottles of champagne into one. Inevitably, something goes pop every few years.

One of the results of this characteristic is that most Kuwaiti share traders buy merely for capital gains, not for long term investment. This speculative nature of trade is understandable, for historically prices have gone only one way, upwards—apart from the collapses of 1977 and 1982. Between 1971 and 1975, for example, prices trebled.

Kuwaitis buy when they perceive the market moving up; rarely are their decisions based on a company's performance or year-end balance sheet results. Annual general meetings are very sparsely attended. Because of these factors, there is very little relation between share prices and the profits and earnings of a company.

These are the two fundamental weaknesses of the Kuwait stock market, which could prevail no matter how the regulations are written. On top of that, the new market will also be saddled with additional problems, leftovers from the Manakh crisis.

The first question which will be posed is what to do with the Manakh companies now? A number will be taken on to the official exchange, after having qualified for listing, which at present requires a three-year profit record and five years of audited accounts.

Many of the Gulf companies, however, have never issued annual reports, and exist merely as a vehicle for trading on the Manakh exchange.

Saddled

Moreover, almost all of the companies are saddled with post-dated cheques, and until the settlements begin, little can be assessed of their future.

Those Manakh companies that are hoping to gain listing on the Kuwait exchange believe that this will provide them with a stamp of respectability and prestige. However, both Abu Dhabi and Bahrain are in the throes of setting up their own troubled stock markets, and Bahrain for one, is known to be talking of taking the shares of the Bahrain-registered Souk al Manakh companies onto its own exchange.

Some Kuwaiti analysts believe that listing on other exchanges may in fact prove attractive to some of the Gulf companies, given the past record of "nannying" by the Kuwaiti authorities. The official Kuwait Stock Exchange has in the past refused permission for a number of share issues, and it was partly these restrictions which led to the flowering of the Manakh exchange in the first place.

Such questions would not be issues at all if there was a decision by the Gulf Co-operation Council to administer these exchanges in a co-ordinated way, guaranteeing access for Gulf citizens to any exchange in member countries.

The attitude of the G.C.C. towards these burgeoning exchanges is likely to be dominated by Saudi Arabia and Kuwait, the two countries where large surplus funds are available. Saudi Arabia says it is debating ways of setting up its own stock market. But it has also recently issued a decree (which may or may not be enforced) which bans brokers from trading in the Kingdom and orders that only banks may handle share purchases. As for Kuwait, allowing other Gulf citizens access to its own official market would require a complete reversal in national policy, for entry to the stock market has always been jealously guarded.

In practice, wherever the companies are listed, they are going to be traded in Kuwait, merely because the bulk of their shareholders are there. So Kuwait has to consider the dangers of a re-emergence of unregulated kerb-side trading which would inevitably occur if the Gulf companies were not listed on its own official market.

Furthermore, there is the problem of those Manakh companies which are unlikely to qualify for listing: What is to happen to them, their shares and their shareholders?

Solid units

Kuwaiti officials indicate that some may simply be dissolved as a result of the Manakh crisis, while others, they are hoping, will decide to merge into more solid units. The worst possible solution would be for the Bahrain and Abu Dhabi exchanges to be lumbered with them.

Another problem which will raise its head as the establishment of the new market approaches is the fact that the Government already owns 40 to 45 per cent of the market. In a number of financial institutions such as KFTCIC, the state holding has reached over 90 per cent. The government now has majority holdings in 21 companies, and in another four, it holds more than 33 per cent of the total shares.

These assets are increasing daily, for the state continues to buy about $300m of stock a day in order to support prices in the official market and thereby protect bank collateral. Share prices in a number of stocks have gone above the support price, but barely so.

Brokers are now wondering what happens when the policy of support ends, for they predict that when that occurs, prices will fall by 15 to 20 per cent. Some even predict another "panic." The moment has to be carefully chosen, if another spate of bad nerves about the market is to be avoided.

Another question is what will the Government do with the shares it already holds; will it keep them as it did in 1977, or sell them off cautiously?

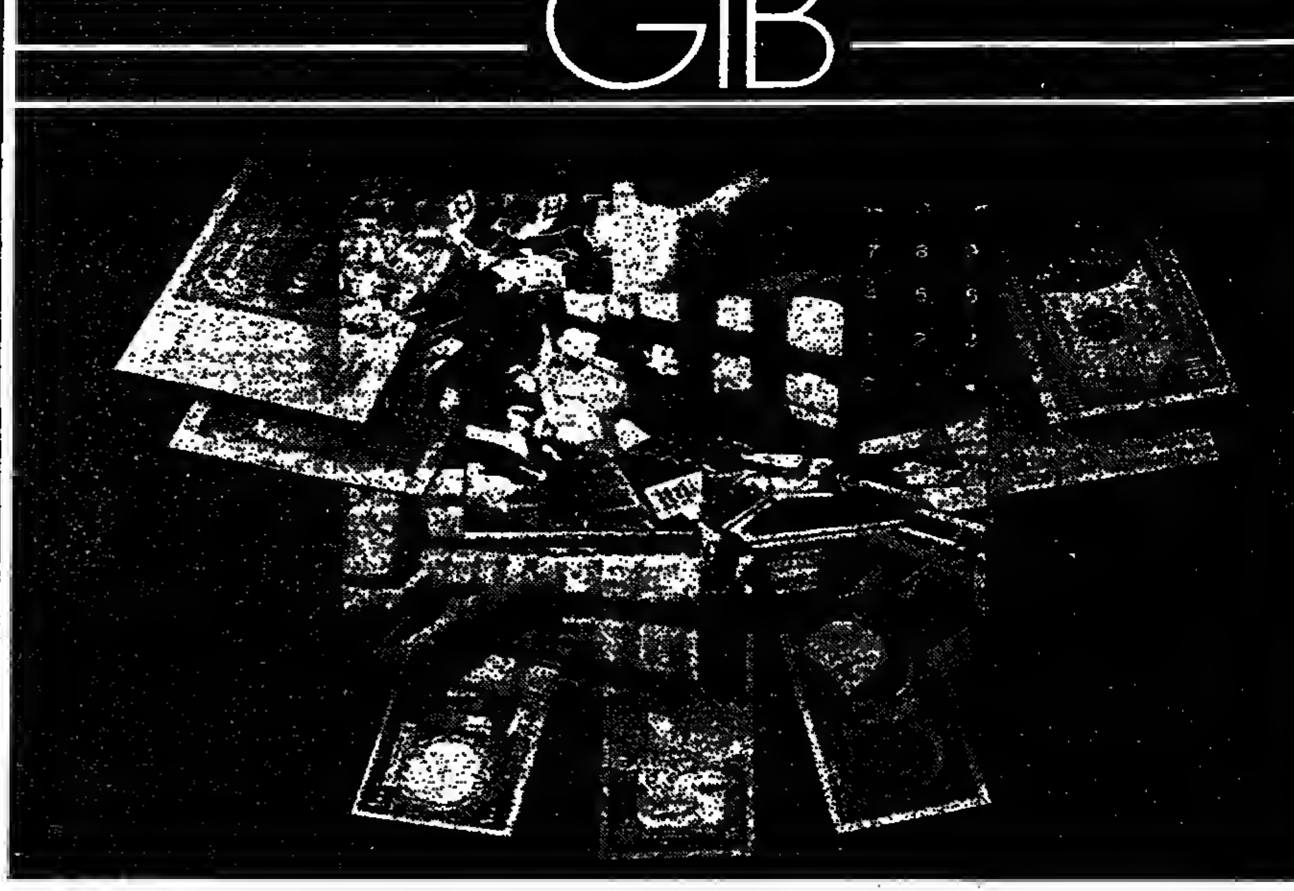
Compared with the above issues, other problems to be faced by the new stock market seem small. However, the present market has only one jobber. Securities Group, though a second company is presently establishing itself.

The lobbying has also started over the fees to be charged by brokers, for at present brokers are rarely called upon to guarantee a deal. If the new regulations require them to do so, then the brokerage fee will have to be substantially raised from its present KD 0.002 per share.

But perhaps one welcome development which will come from the new market's establishment will be an increase in the amount of information that will have to be disclosed by companies to the public. Kuwaiti balance sheets at present are notoriously uninformative, and greater disclosure will be necessary if the public is to be adequately informed.

The new Stock Exchange, glamorous though its new home will be, will face a fraught time. Above all, the Government first must get across to the investing public that the next time there is a problem in the market, it will not be there to pick up the pieces.

Kathy Evans



ARAB BANKING AND FINANCE XVIII

Arab Banking Corporation's Coup

ARAB BANKING Corporation pulled off quite a coup last month with the successful syndication of a $200m credit for the National Bank of Hungary, the first in which the World Bank has taken a direct participation.

The 60 per cent sell-down was well ahead of target, and contrasts sharply with the response to two shorter-term Hungarian loans co-led by ABC. There was no enthusiasm at all for the $260m three-year deal signed in August last year as a follow-up to the $510m financing arranged through BIS by Western central banks; while for last April's $200m loan (also for three years) the sell-down was a derisory 5 per cent.

However, major U.S. banks have remained on the sidelines, possibly because some of them already have full lines on Hungary and are not treating a National Bank co-financing as a special case, or because they resent the mandate going to a relatively inexperienced Arab bank. Support has come mainly from Japanese and European (especially Dutch and Scandinavian) banks.

The commercial banks' $170m share of the loan is repayable after six years, two years earlier than the $30m contributed by the World Bank, which will have a hand in managing the $680m worth of agricultural and energy conservation projects it has identified as viable.

Hungary will be expected to meet part of the cost from its own resources, but the credit package also includes a $220m soft loan from the World Bank and a Japanese yen facility arranged by Long-term Credit Bank.

The bank has managed enough major deals this year to keep its name high in the syndication tables, but the growth of its portfolio has slowed dramatically compared with the 108 per cent increase in 1982, the second full year of operation. ABC has not been immune from loan losses (it counted the bankrupted Miami-based Columbia Coffee Company owned by Alberto Duque among its corporate borrowers). But the advantage of being young is that some loans to Latin America, which account for some 17 per cent of its earning assets, are still in the grace period. In anticipation of future reschedulings, a portfolio protection reserve of $30m was created last year, in addition to undisclosed provisions.

While Saudi Arabia is an important potential market, ABC has not yet explored it and is therefore losing no sleep over SAMA restrictions. The bank also escaped the effects of the Kuwaiti stock market crisis, since regional business has been mainly limited to public sector credits such as the $500m Abu Dhabi Gas Liquefactor Company (ADGAS) loan signed last month, and the packages put together in Bahrain for joint-venture industrial projects.

The recent issue of ABC's first Eurobond was an important milestone. Led by Commerzbank and a well-diversified management group, the five-year DM 100m bond issue was underwritten by no fewer than 102 financial institutions. ABC is also placing greater emphasis on fee-earning investment banking services, although the contribution to total profits of both the marketable securities division and the London-based mergers and acquisitions group will be small for some time to come.

Meanwhile the scope of trade financing operations has been broadened with the opening of a branch in Milan (to be officially inaugurated on October 6) to complement those in London, New York and Singapore.

Mary Frings

Bahrain Offshore Banks

Japanese lead the new wave

THE BALLROOM of the Bahrain Hilton was thronged with smiling Japanese bankers and their wives when the chairman of Yamaichi Securities, present for the inauguration of a new investment banking subsidiary, ceremonially broke open a tub of sake and introduced his Western guests to the experience of sipping it from square wooden boxes.

Fifteen Japanese banks, and four securities companies, have come to Bahrain since the Bank of Tokyo first explored the market in 1977 and opened its OBU three years later. But the establishment of locally-incorporated Japanese investment banks (IBIs) is a new phenomenon dating only from August last year, when Nomura Investment Banking (Middle East) E.C. replaced an earlier representative office.

In the first four months of operation, Nomura cleared its start-up costs and made an $800,000 profit. By mid-'83 it was employing 36 people and reporting an increasing volume of stock and bond trading with private sector clients. According to chief executive Kohichi Watanabe, this was perhaps because while the Suq al Manakh was booming, "no-one was interested in the 20-30 per cent return we could offer on Japanese stocks." Now foreign investments were regaining their attraction.

The second Japanese IBI, set up by Sumitomo Bank in April this year, is geared to general merchant banking and fund management, underwriting and placement of bond and CD issues, while the third is Yamaichi's securities trading operation which opened in May. Nikko Securities and Daiwa Securities could be the next in line, although the Bahrain Monetary Agency (BMA) may wish to avoid further licence awards until it is sure that the investment banking sector is not becoming overcrowded.

Along with Merrill Lynch, E. F. Hutton, the Saudi-owned Trans-Arabian Investment Bank (TAIB) and newcomers such as Investcorp, the major Arab commercial banks are diversifying into corporate finance and advisory services, mergers and acquisitions, marketable securities and in the case of United Gulf Bank and United Bank of Kuwait, financial futures.

This is one way in which they can respond to the contraction of interbank activity and the scarcity of good lending opportunities which has become part of the global pattern. Bahrain could only have gone against the trend if regional economies had been showing spectacular growth—which clearly is not the case.

The assets and liabilities of the offshore market seem to have found their level at $55-56bn, after falling from a peak of $61.1bn in August last year. The annual growth rate in 1982 slowed to 16 per cent, compared with an average of 35 per cent over the previous five years. In 1983 it will be negative, unless there is a significant recovery in the second half. Not many bankers are optimistic on this score.

Since then the strife in Lebanon has intensified and Morocco has sought to reschedule its debt. But at least the oil market has firmed and there is still a role for Bahrain offshore banks in Saudi Arabia, although some bankers say they are "scared of 1984." This is because cutbacks in the current Saudi budget will mean fewer projects to replace those coming to an end.

Without Saudi business, a number of foreign OBUs might as well pack up and go home: which is why the circular issued early this year by the Saudi Arabian Monetary Agency (SAMA) aimed at restricting the participation of offshore banks in Saudi Riyal syndications caused initial consternation.

It was soon recognised, however, that SAMA was taking a logical step to encourage the development of Saudi domestic banks—and one British bank even turned down an invitation to participate in an SR syndication managed offshore (which excluded Saudi banks) to avoid flouting SAMA's wishes.

As a counter-measure, the multi-currency package was developed, in which offshore banks provided funding in dollars, while the riyal portion was funded by Saudi banks. Since May there has been little activity in the Saudi market anyway, due to delays in the award of contracts and the normal slowdown associated with summer and the month of Ramadan, so it is hard to assess the impact of the new controls. But they do not affect either direct lending or guarantees, and the Saudi government's reduction in advance payments has increased the demand for working-capital and letters of credit.

There are still some big deals to be financed in Saudi Arabia, including industrial projects in Jubail and Yanbu. Also, the problems experienced by SABIC (Saudi Basic Industries Corporation) with a financing being put together earlier this year by Riyad Bank suggest that the Saudi government may need to call on international banks for their resources and expertise.

A potentially more serious problem, because it affects the most profitable area of direct lending to the Saudi private sector, is the possibility of a more systematic application of withholding tax. Some joint-venture and Saudi Limited Liability companies (whose accounts are the only ones seen by the tax authorities) have already paid tax on the interest due to foreign banks on the provision of credit, and have decided to take their custom to the Saudi banks; the client of one French OBU has repaid all his existing facilities as a precautionary measure.

Although times are getting harder, energetic and innovative banks will always find business. Lloyds Bank International and Saudi National Commercial Bank are already well ahead of their 1983 budget targets. United Gulf Bank is now reaping the fruits of last year's intensive marketing campaign not just in the Arabian peninsula but throughout the Arab world. Gulf International Bank has made a speciality of multi-facility packages for regional borrowers. Société Générale is switching its Saudi financing from the contracting industry to the import of agricultural machinery.

On the other hand, says Dr Makram Rahal of the Arab Bank, "Some banks who came without commitment or local knowledge may scale down their operation." The market has matured and the possibility of one or two departures is no longer alarming.

In fact, they are still coming: Yapi ve Kredi Bankasi of Turkey and Citicorp Banking Corporation opened in May, while Korea's Hanil Bank and The Arab Investment Company (TAIC) are due to activate their OBU licences shortly. A number of other applications are awaiting the consideration of the BMA, including at least two more Japanese representative offices.

Money market and foreign exchange operations have always been an integral part of the market, although the most active dealers have complained bitterly over the high fees charged by the six money-brokers represented on the island. The introduction of the Reuters dealing service and the improvement in regional telecommunications put them in a strong bargaining position when a committee of the Bankers Society of Bahrain was formed earlier this year to work out a compromise with the brokers, who justified their charges by citing heavy office and communications expenses and the cost of bringing out expatriate staff. They also pointed out that although foreign exchange turnover had gone up this year, spreads were narrower and profit margins lower.

After more than five months, an agreement was implemented on September 1 for reductions of between 20 and 40 per cent in fees for foreign exchange transactions plus a volume discount at three levels on monthly brokerage bills. There were also downward adjustments to the charges on deposit transactions. The only issue still to be settled is whether the agreement will hold for one year or three.

Mary Frings

PERFORMANCE OF MAJOR BAHRAIN-BASED BANKS

(1982, with June 1983 results in brackets)

Name	equity base	return on av. equity %	assets excl. contras	return on av. assets %	loans	ordinary profit
1. Dollar-based banks (in U.S.$m)						
Arab Banking Corporation	966 (1,093)	12.36 (11.08)	7,890 (8,160)	1.81 (1.44)	2,910 (3,290)	115 (58)
Gulf International Bank	412 (441)	15.70 (13.17)	6,161 (6,363)	0.95 (0.89)	3,244 (3,671)	50.8 (28.1)
Arlabank International	184 (229)	11.06 (8.26)	2,151 (1,837)	0.92 (0.95)	1,246 (1,142)	23.2 (8.1)
AL-BAAB	96 (132)	22.54 (—)	1,357 (na)	1.51 (—)	824 (na)	18.2 (11+)
Gulf Riyad Bank	35* (na)	30.76** (—)	1,343 (na)	0.38 (—)	474 (na)	4.7 (na)
United Gulf Bank	240 (na)	20.00 (—)	1,065 (1,122)	2.50 (—)	357 (426)	35.3 (na)
2. Dinar-based banks (in U.S.$m)						
Bank of Bahrain & Kuwait	225 (244)	21.60 (16.20)	2,266 (2,170)	1.81 (1.71)	1,189 (1,200)	34.6 (19.0)
National Bank of Bahrain	140 (155)	25.47 (21.87)	1,185 (1,400)	2.74 (2.51)	480 (527)	30.0 (16.2)

* Includes $25m subordinated loan on which interest is paid at market rates.
** Excludes subordinated loan.
NB: All results are consolidated.

Table compiled by Mary Frings

Algeria

Seeking better management

AFTER YEARS of feverish international diplomacy during the 1970s, the years since President Chadli came to power may appear, to the casual observer, less exciting, somewhat dull.

Indeed high-flown pronouncements about North-South relations, strident attacks on the capitalist economic system, speeches claiming that the policies pursued by Algeria were few and far between.

Algeria has not given up all it believed in during the previous decade but most of the Chadli presidency so far has been spent trying to put the country's economic house in order and ensure a less wasteful system of management, which is essential if the country is to face the challenge of a fast growing population, very poorly managed agricultural resources and a lower income from oil and gas.

President Chadli's rule has been consolidated by a number of factors. Thanks to the gamble made in developing natural gas a decade ago, Algeria's oil and gas income has not fallen too sharply: by 12 per cent to $12.8bn between 1981 and 1982, by a further $1bn probably during the current year.

The country's foreign debt meanwhile has been brought down from about $24bn in 1980 to $20bn today. Of that total only an estimated $17bn has been drawn down but repayment schedules at present remain very heavy: $4.3bn this year, a figure which could drive the debt service ratio as a percentage of exports to 35-37 per cent, if the country's hard currency income declines by $1bn.

The decision to suspend all foreign borrowing taken by the authority in 1979-80 has paid off handsomely. Had Algeria not done so, it would today be travelling the same road to the IMF that so many other Third World debtors have in recent months.

The decision to suspend all foreign borrowing, taken by the authorities in 1979-80, has paid off handsomely

As it is, the situation is a tight one but it gives no cause for serious concern. The surplus on Algeria's visible trading account declined by about one-third to about $2.7bn last year—because the net outflow of service payments increased sharply, the current account slipped into deficit—estimated at just over $1.2bn.

At the end of March, total foreign reserves had declined to $1.8bn, excluding gold, which is a little over half the figure at the end of 1980. But Sonatrach's ability to raise Euroloans at very fine margins over the interbank rate, as demonstrated when the Algerian company raised $700m last spring, suggests that further foreign loans can be raised easily if needed.

Many changes in the way the Algerian economy is run continue to be announced but implementing these reforms is painfully slow — foreign companies can spend years negotiating a contract.

President Chadli has greatly encouraged private entrepreneurs who until 1979 were held in great contempt. He has moved to break up some of the major state companies whose very size had become detrimental to economic development. He has encouraged building of flats and hospitals—a greatly neglected field under his predecessor.

The role of the banks is also under review. They are being asked to follow the implementation of various projects more closely, part of the effort to make public companies more accountable. Hence, their role is to be more specialised: the Banque Exterieure d'Algerie will look after the energy sector, the Banque Nationale d'Algerie the heavy industrial sector, etc. New banks are being created such as the Banque de l'Agriculture et du Developpement Rural which was to have had its seat in Blida, near Algiers, but is in fact being set up in the capital, so great and heavy is the weight of state bureaucracy.

Agriculture is attracting much attention these days. Algerian imports of food continue to rise and subsidies to keep the price of staple foods relatively low rose last year to over $1bn. However, measures to cut these subsidies were announced this summer but it will be a slow and arduous task to make the country's agricultural sector productive again.

So far President Chadli has had the considerable advantage of a reasonably strong foreign financial position. However, if—as most Algerians believe—he stands for a second term in next February's presidential elections, the changes that follow may be swifter than anything witnessed hitherto.

Francis Ghiles

هكذا من الأصل

Bahrain Domestic Banking

New competitor to enter fray

BAHRAIN has 18 commercial banks competing for a share of a very limited domestic market, and for the past six years there has been a moratorium on new entrants, apart from the special category Bahrain Islamic Bank, in 1979.

Now the Bahrain Monetary Agency (BMA) has decided there is room for one more, and has given its blessing to the formation of the first joint-venture bank between Bahrain and Saudi Arabia. The award of a full commercial licence (FCB) will be conditional on satisfactory management and balance-sheet projections.

Ownership of the Bahraini-Saudi Bank will be split equally between the two states, with between 25 and 30 per cent of the issued capital of BD 35m ($93m) to be offered for public subscription within the next few weeks. The capital will be half paid up initially.

The bank is an old idea, promoted at various times by both the leading local banks (National Bank of Bahrain and Bank of Bahrain and Kuwait) and by the Kanoo family. Their stumbling block has been the refusal of the Saudi monetary authorities to licence a branch in Saudi Arabia which, in their view, was crucial to success. Some bankers think it still is, since the Bahrain economy is now expected to grow more slowly than it has during the past six years.

What is new this time is not that the attitude of the authorities in Riyadh has changed but that the initiative has come from the Saudi side, led by Prince Sultan bin Fahd (a son of the Saudi monarch) as chairman of the founders' steering committee, and other members of the royal family. It is hoped that these investors will bring valuable new business into Bahrain, attracted by the more service-orientated banking system and the absence of red tape.

Heading the list of Bahraini founders, who include individual merchants, trading houses, banks and other public shareholding companies, is Shaikh Ali bin Khalifa Al Khalifa, the son of the Prime Minister. The steering committee is negotiating a technical assistance contract with an as yet unnamed bank, and is planning to begin business in 1984. An off-shore bank (OBU) will probably be added at a later stage.

The distinction between domestic and offshore operations is a little blurred, since all but five of the 18 full commercial banks hold dual licences. However, separate domestic statistics are compiled by the BMA, and these show that last year five banks — National Bank of Bahrain (NBB), Bank of Bahrain and Kuwait (BBK), Al-Ahli Commercial Bank, Chartered Bank and the British Bank of the Middle East (BBME) — accounted for 80 per cent of the aggregate assets and earnings.

The other banks have been content to keep their flag flying as long as they are earning their keep. All are branches of foreign banks since the demise two years ago of under-capitalised Continental Bank (a local joint-venture with Continental Illinois, which has now replaced it with an OBU).

Chase Manhattan Bank books all its letters of credit, acceptances and guarantees through the commercial branch rather than through its OBU, so that "contras" are 10 times as big as assets.

Some foreign banks such as Arab Bank Ltd, are part of a regional retail network. Others cater to specific sectors of the community. Whatever their role in the market, none of them lost money in 1982.

Windfall

While 1983 will not be a "glamorous" year, in the words of Nooruddin Nooruddin of NBB, the results of the first half have been positive, particularly in the second quarter when aggregate assets rose 3.6 per cent to BD 1.121m (close to $3bn). While loans were fractionally down in the three-month period, deposits increased by 5.5 per cent.

Despite the forthcoming share issue for the Bahraini-Saudi Bank, and possibly another for Bahrain Investment Company, which is being restructured as a bank with a five-fold increase in capital to BD 20m ($53m), the local banks do not expect to gain anything like last year's $85m windfall on the handling of subscriptions. Unlike the offshore companies whose shares are denominated in dollars, the forthcoming issues are for dinar-based Bahraini stock companies, and the BMA is expected to require substantial cash margins on share applications to prevent excessive speculation.

Among the nationally-owned banks, which with Chartered and BBME dominate the market, Al Ahli Commercial Bank, founded in 1977, is the smallest and youngest. It has not yet established an OBU and any non-domestic lending is restricted to the Gulf region and to maturities of less than three years. The bank concentrates on short term trade-related business and is pleased to have secured the custom of major foreign contracting companies.

At the half year Al Ahli reported assets of BD 122m ($325m), 5.6 per cent up on the end of 1982. Loans (less provisions) decreased slightly to BD 76m, but deposits rose by a healthy 17 per cent and interbank borrowings were substantially reduced. Profits showed an 11.6 per cent improvement on the first six months of last year.

The half year results of the National Bank of Bahrain and the Bank of Bahrain and Kuwait are not comparable with Al Ahli's, since they are available only on a consolidated basis (see performance table of major Bahraini-incorporated banks). NBB says that more than 50 per cent of its business is local, while BBK's is estimated to be split about equally between its domestic operation, the Kuwait branch and the OBU.

BBK reports that local anxiety over the collapse of Kuwait's Souk al Manakh prompted a few depositors to switch their funds to the Arab Bank, which has a record of paying out in a crisis. At the same time the market price of Bahraini bank shares took a plunge from which it has now partially recovered, although some shares are still 50 per cent below the unrealistically high levels of last year.

In the place of these problems BBK's Bahrain operation continued to show asset growth, and the consolidated profit declared at the half-year was 15.5 per cent up on the first half of 1982. The OBU operated at about the same level as last year but there was some run-off of assets in Kuwait; the business outlook there depends on speedy settlement of the post-dated cheque problem and a return to normal activity.

It is no secret that BBK salts away part of its earnings in the good years in order to build up inner reserves, not only against loan losses but as protection against freak fluctuations in exchange rates or a sudden loss of bank lines due to events beyond its control. The management is very conscious of the volatility of the regional market and of the need to show a stable pattern of development.

At the semi-government National Bank of Bahrain the rate of growth has been "comforting," but bank officials say there is unlikely to be as high a return on assets or capital as last year. This is partly because of more competitive pricing right through the market: in the boom years customers asked few questions, but now they are watching their costs.

The local banks will also miss the substantial foreign currency deposits placed with them during last years offshore company share floats—and whatever excess funds they do have will yield interest at a lower rate. But although Mr Nooruddin complains that "it is getting harder for a bank to make a buck," NBB's profits look extremely healthy, with a 19.6 per cent improvement on mid-82.

Nearly five years after the idea was first mooted, 1983 saw the start-up of a consumer finance company in which BBK and NBB each have a 20 per cent stake. The remainder of the BD 5m issued capital is distributed among other financial institutions, insurance companies, car dealers and traders. Known as Bahrain Commercial Facilities Company, it offers instalment credit on anything from cars (at a flat rate of 7½ per cent per annum) to computers.

Profit

Customers for smaller household items such as televisions or refrigerators will still depend on the shops for hire purchase facilities, since the new company set a BD 500 ($1,325) minimum—and those who can provide guarantees might still be better off taking a personal loan from their bank. Nevertheless the company fills a gap in the market and expects to make a profit in its first year of operation.

Another venture in which the banks have an interest is the formation of a BD 50m securities trading company, but it will probably be given a higher priority once an official stock exchange is established next year. This will start with a traditional trading floor but will eventually be fully computerised, with the possibility of dealing in international as well as local and Gulf stocks.

As an interim measure, the Ministry of Commerce has set up a market information centre, with telex links to the 19 licensed stockbrokers. Staff at the centre keep in touch with the brokers throughout morning and evening trading sessions, disseminate information and prepare reports and share indices for the Press and radio station: all of which has had the effect of boosting trading activity.

Mary Frings

The Bahrain Monetary Agency

Monitoring work tightened up

THE BAHRAIN Monetary Agency is not "inquisitive," even though it is seeking more information from banks than it has dona in the past. That European banker's comment was intended as a compliment, implying that the agency was doing its job as a responsible central bank without prying into customer relationships or other legitimately private affairs.

The BMA's reporting system covers all banks licensed in Bahrain, including the domestic and offshore branches of foreign banks. What is new is that more time is being devoted to the prudential control of those offshore banks which are incorporated in Bahrain and for which the BMA is the primary supervisor.

Within that group, the agency is concentrating on the regional banks—those of mixed Middle Eastern ownership—whose numbers and scale of operations have grown rapidly. By the end of last year these banks' combined paid-up capital was close to $2.4bn and their assets of $18bn represented 30 per cent of total market volume. Led by Gulf International Bank (GIB) and Arab Banking Corporation (ABC) they are opening branches and subsidiaries in London, New York, Hong Kong, Singapore and other financial centres, whose regulatory authorities need to hava confidence in the supervision exercised in Bahrain.

It was the cumulative effect of this home-based expansion, as much as the international debt crisis, which highlighted the need for closer monitoring of capital adequacy, liquidity, quality of assets and concentration of risk. The paperwork is backed up by a flexible programme of prudential meetings between officers of the BMA's Banking Control Directorate (assisted by Philip Marr, a Bank of England adviser) and senior management of the banks concerned.

Abdulla Hassan Saif, the BMA governor, spelled out his determination to "deter any laxity in operational procedures and credit criteria" to the Bankers' Society of Bahrain at the end of last year. As the world banking climate deteriorated, it was an appropriate time for supervisors to become more vigilant.

The new reporting requirements include a quarterly balance sheet return for locally-incorporated offshore banking units (OBUe) and investment banks (IBLs), and more detailed year-end audits, to be consolidated in the case of banks with branches and subsidiaries abroad. Auditors were warned before publication of the 1982 accounts that the BMA would expect reports on non-performing loans and exposure to directors and connected companies. A distinction was also to be made between securities beld for trading purposes and as long term investments.

In the bank'a regular monthly returns the BMA has improved the format of country exposure reporting. Loans had previously been classified under five headings: Arab countries, Western Europe, North America, offshore centres and "other"—a residual category embracing not only Latin America but other potentially high-risk areas such as non-Arab Africa, Eastern bloc countries, Korea, Indonesia and the Philippines.

When smaller banks had problems with liability management earlier this year, as bank lines were squeezed or frozen in a nervous market, the BMA encouraged them both to get some funding locked in by issuing medium-term CDs and to broaden their equity base. Arab Asian was able to boost its shareholders' funds by realising a profit on its investment in Taiping Textiles, at the same time improving its gearing ratio.

Recent capital increases have also been made by Gulf Riyad Bank, Al-Baab, Kuwait Asia and Arab Latin American Bank—which bas moved its centre of gravity to Bahrain with the formation of Arlaubank International as the parent of the Lima-based bank, and is also arranging a $300m shareholders' standby fund.

Capital adequacy is of prime concern to the locally-incorporated OBUs, which do not have the benefit of a lender of last resort facility in U.S. dollars. While they are not governed by the 5 per cent equity/deposits ratio imposed on dinar-based domestic banks, from a prudential standpoint the BMA looks for maximum 1:20 gearing from the OBUs, and much more conservative ratios from those whose shareholders are individuals rather than governments or financial institutions, or whose risk-exposure is not well diversified.

Provisioning policies and large exposures to individual customers and groups are also examined; there are no legal limits on loans to directors, but these are assessed in relation to the total loan portfolio. The BMA does not encourage the development of "in-house" banks in Bahrain, and has no doubt made this clear to three of the Kuwaiti-controlled newcomers to the market whose directors made dispositions of capital befora the legal incorporation date. Among them is the Bahraini Kuwaiti Investment Group, which can conduct no further business until it has extricated itself from the problems caused by investing all its funds in the Kuwaiti stockmarket.

In future, the BMA will ensure that the funds of companies under formation are placed on deposit, and cannot be dispersed without the authority of a shareholders' meeting, until appropriate and professional management is in place.

The quality of management came under scrutiny two or three years ago when a few international banks seemed to be sending out people of lower calibre to replace the pioneers. The BMA now maintains a "management inventory" and reserves the right to approve all senior appointments; candidates can and have been rejected for lack of appropriate experience. However, events such as the collapse of the Abdulla Salih Al Rajhi exchange house in Dammam, which had repercussions in several international banks, served to concentrate the minds of head offices on the complexities of Gulf banking.

M. F.

BANKS FOR WHICH THE BAHRAIN MONETARY AGENCY IS THE PRIMARY SUPERVISOR
(with date of establishment).

OFFSHORE BANKING UNITS (OBUs)	
1975	Gulf International Bank* (GIB)
1978	Gulf Riyad Bank†
1978	FRAB-Bank†
1979	European Arab Bank (Middle East)†
1979	Al Bahrain Arab African Bank† (AL-BAAB)
1980	Arab Banking Corporation* (ABC)
1980	United Gulf Bank† (UGB)
1981	Arab Asian Bank†
1981	BAII (Middle East)†
1981	Kuwait Asia Bank†
1982	Bahrain International Bank† (BIB)
1982	Bahrain Middle East Bank† (BMB)
1982	Masraf Faisal Al Islami of Bahrain† (MFI)
1982	Al-UBAF Arab International Bank†
1983	Arlabank International†
FULL COMMERCIAL BANKS (FCBs)	
1957	National Bank of Bahrain* (NBB)‡
1971	Bank of Bahrain and Kuwait* (BBK)‡
1977	Al-Ahli Commercial Bank*
1979	Bahrain Islamic Bank*
INVESTMENT BANKS (IBLs)	
1977	Bahrain Investment Company* (BIC)
1978	Kleinwort Benson (Middle East)†
1979	BAII Corporation†
1979	Trans-Arabian Investment Bank† (TAIB)
1980	Citicorp International (Middle East)†
1981	United Gulf Investment Company†
1982	Bahrain Islamic Investment Company*
1982	Bahraini Kuwaiti Investment Group†
1982	Arabian Investment Banking Corporation (INVESTCORP)†
1982	Nomura Investment Banking (Middle East)†
1983	Sumitomo Finance (Middle East)†
1983	Yamaichi Finance (Middle East)†

* Bahrain Stock Company. † Exempt Company (an offshore company not requiring local partners). ‡ Also OBUs.

Table compiled by Mary Frings.

Arab Bank

Branching out overseas

WHEN THE Amman-based Arab Bank celebrated its 50th anniversary two years ago by moving into its new headquarters building in the Shmeisani district of the Jordanian capital, its celebrations largely stressed its five decades of pioneering banking activity in the turbulent Arab world.

It was a friendly, old giant of a bank basking in its own past glories—relying on its often-tested reputation as a trustworthy bank that always repaid customers' deposits in the war-scarred region in which it operated.

Customers came first to the Arab Bank to place their money. Often without accepting interest payments on savings accounts. Thus, not only did the Arab Bank accumulate a large deposits base, but its cost of funds was always less than that of competing banks.

Today, the Arab Bank is transforming itself into a very different institution. Its dominance of its Jordanian home market suddenly eroded by a hoard of aggressive new smaller banks and finance companies that have opened their doors since 1978, it has moved swiftly in two related directions.

The first is a steady expansion of its international network of branches and subsidiaries, and the second is a sharp increase in largely foreign-based merchant banking activity.

Prospered

The Arab Bank has grown and prospered, ever since its establishment in 1930 by an enterprising Palestinian named Abdul Hameed Shoman, largely because of its conservative, close-to-home style of banking, stressing personal trust, reliability, high liquidity and a glaring lack of innovation. Its present international expansion and diversification into corporate banking are therefore all the more novel.

"Years ago, we used to sit back and relax and rely on our deposits coming in, and then decide what to do with all that money after we had it," recalls one veteran Arab banker. "Today, merchant banking is the name of the game, and we have to go where our clients are and where the business is," the same man says.

During the past decade of oil-fuelled growth in the Arab world, the Arab Bank has grown at any extraordinary rate of nearly 20 per cent a year. At the start of the 1970s, it was the only Arab bank with a significant international presence, including a unique network of branches and subsidiaries covering almost the entire Arab world.

The Arab Bank in Amman: friendly old giant with a reputation for trustworthiness

Between 1970 and 1980, its balance sheet total grew from Jordanian dinars (JD) 150m to JD 2.2bn (from $450m to $6.6bn).

Its absolute growth continues. In 1982, total assets increased by 11 per cent to reach JD 3.34bn ($9.5bn), and by June of this year had reached JD 3.52bn ($10bn). Jordan accounts for less than 30 per cent of deposits and about 25 per cent of profits, about half the comparative figures of a decade ago.

The bank's new profit centres are in the world's leading capital markets, notably London and Bahrain, where the Arab Bank books most of its corporate and merchant banking business, such as syndicated loans and guarantee facilities. Bahrain and Europe together accounted for about 60 per cent of the bank's profits last year, and the trend should continue rising in their favour.

The bank's chairman and general manager, Abdul Majeed Shoman, son of the founder, observes: "We have to resist the temptation to remain static. We should be moving all the time to establish ourselves in the world market, especially by following the global pattern of Arab trade and industrial growth."

Such movement during the past decade now gives the Arab Bank group an international network of 67 branches, affiliates or subsidiaries in 22 countries, along with the expanding network of 55 branches in Jordan.

Recently opened branches in Athens and New York will soon be joined by an offshore banking unit in Singapore and three branches in Cyprus. The wholly owned Arab Bank Investment Company in London and the OBU in Bahrain continue to be the focal point of the group's merchant banking. The next areas targeted for expansion include Los Angeles, Spain and Italy.

The Arab Bank has always been careful to keep its lending and other banking activities closely related to business with the Arab World—dealing mainly with Arab firms or foreign companies working in the Arab World.

Thus it has negligible exposure in South America, black Africa and Eastern Europe, and correspondingly lacks the worries of other global banks who rushed to lend in these regions during the 1970s. Much of the credit for this goes to Chairman Abdul Majeed Shoman, whose moves by the bank, in the words of one colleague, are based on the fact that "he has been a banker since he was at his father's side at the age of six, and has a combination of experience, instinct and memory that is unmatched anywhere in banking and finance circles in the Arab World."

Decentralisation

Major policy decisions continue to be made by the chairman and his brother, deputy chairman Khalid Shoman.

Yet the immense growth of the bank during the past decade has forced a degree of decentralisation that has eaten away at the edges of the family-run character that has always defined the Bank since its earliest days.

By their very nature, merchant banking and corporate finance lack the personal touch of hometown lending to clients who are, more often than not, personal acquaintances as well. Thus it is likely that the Arab Bank will continue to expand internationally in the businesslike world of global finance, while holding on to its successful friends-of-the-family style of banking in Jordan.

As it has done for its past 52 years of life, it is still having to deal with the challenges of how to operate in so many different Arab states that intermittently feel the urge to bring banks operating in their countries under local control or ownership.

In the past three years Arab Bank branches in Saudi Arabia and Tunisia have been transformed into independent companies whose shares are held jointly by the Arab Bank and local interests. This has tended to cut into profits of the Arab Bank itself, though group profits continue to rise and the total balance sheet of the entire Arab Bank group reached JD 4.19bn ($11.92bn) in 1982. Group net profits after taxes last year rose from JD 20m to JD 22.6m ($57m to $63m), on operating income of $225m.

Rami Khouri

Jordan

System well placed to aid economy

AFTER 10 years of uninterrupted growth and profits, fuelled by steady injections of cash into Jordan from the Arab oil-producing states, Jordanian bankers are suddenly having to operate in e markedly different economic environment. The economy has entered the second year of e recession that has been triggered by a $500m annual shortfall in anticipated official grant aid from the Arab oil states in both 1982 and 1983.

The obvious slowdown in business, however, has been accompanied by a sharp increase in the number and kinds of banking institutions operating in the country, making for considerably more competition, and e greatly increased capacity within the banking system to meet the capital funding requirements of all but the very largest industries and projects in Jordan.

The banking system is therefore far better placed today to play a role in helping pull the country out of its economic slowdown than it has over been in the past.

In the last six years, the financial sector has been filled out with the opening of three more commercial banks (making a total of 16), five finance companies, two investment banks, two Islamic banking institutions, and—the newest members of the banking community—four savings and loan associations that take in contractural savings linked to home ownership schemes.

This proliferation of new institutions has been actively encouraged by the Central Bank of Jordan, though today the Central Bank is maintaining a moratorium on issuing any new licences for commercial or investment banks, or finance companies.

The priority now is to allow the established institutions to stand on their own two feet and to devise more innovative services and instruments that cater to the needs of Jordanian firms in e period of recession.

Dr Mohammad Sa'id Nabulsi, Central Bank governor, observes: "In the recent years of brisk growth the banks were under pressure just to keep up with the demands for their services. Now, tho slowdown in the economy will be a test of how innovative and aggressive they can be."

That recent growth has been impressive. Between 1978 and June, 1983, outstanding commercial bank credits grew from JD 332m ($996m) to JD 997m ($2.99bn), averaging an annual growth of some 25 per cent. This has slowed down in the past year to about 15 per cent, reflecting the correspondingly lower growth rate in the money supply.

The Central Bank is closely monitoring the state of the economy on a month-by-month basis and will continue to use control mechanisms at its command to keep supply and demand for credit in balance. On the supply side, it recently lowered banks' compulsory reserve requirements by 1 per cent, intending to inject about JD 12m ($36m) of fresh liquidity into the banking system and to lower the cost of funds to the banks.

Liquidity

It expects the banks to pass on the saving to clients by lowering commissions charged on loans by one-quarter of a per cent. The banks' mandatory credits/deposits ceiling was also raised from 67.5 to 70 per cent.

Prospective borrowers intending to float bond issues or arrange syndicated loans in Jordanian dinars are being "lined up" by the Central Bank, to make sure that new dinar issues offered to the local market are spaced out so as not to put too much pressure on the market's finely balanced liquidity situation.

Tho most significant development in the Jordanian banking sector in recent years has been the popularity of locally syndicated, dinar-denominated loans and bond issues. These have been mainly arranged and underwritten by the new finance companies and investment banks that opened their doors during the past five years, though tho commercial banks and even some insurance companies and local pension funds, have participated strongly in providing the funds.

In the past five years, syndications worth JD 102m ($306m) have been put together for local borrowers, with another JD 53m ($159m) worth of bonds successfully sold in Amman. Central Bank officials expect at least another JD 19m ($57m) in bonds to be floated before the end of this year, for both public shareholding companies and public institutions. Bonds have recently become more popular than syndicated loans, because of their tax-free status and lower interest rate (9.2 per cent maximum against 10.5 per cent for syndicated loans).

Tho Central Bank continues to encourage the development of a medium- and long-term capital market in Amman by refinancing between 30 and 50 per cent of commercial banks' participations in locally syndicated dinar loans, at the standard 6.5 per cent discount rate. Bond participations are discounted at 7.5 per cent and some investment companies have been allowed to rediscount up to 90 per cent of their loan participations with the Central Bank, to encourage their move into local medium- and long-term capital funding.

The current trend is to put together "package deals" that typically include a bond issue and a syndicated loan, managed and underwritten by a group of local commercial banks and investment companies and provided by a wider syndicate of banks finance companies, insurance companies and pension funds.

Recent Central Bank moves allowing for a floating exchange rate, tied to the banks' cost of funds and the prime rate, have encouraged new institutions to become involved in such medium-term lending.

In a related area, the Central Bank is soon to offer a lower discount rate of 6 per cent for export financing, to encourage banks to become more involved in domestic exports and to help the economy pull out of its current lull. One Central Bank official notes: "This means we will, in practice, have e differential discount rate for different purposes."

The economic slowdown is causing many small- and medium-sized companies, particularly in the industrial and service sectors, to turn to tho banking system for credit.

Some of the newer investment companies are hoping to tap this new market to make up for the drop in traditionally profitable business in tho trade and construction sectors.

One of the problems bankers are facing is that medium- and long-term lending is still being financed in most part by short-term deposits. A priority for the country's young investment bankers is to devise longer term instruments that will cater to tha needs of both savers and borrowers, such as convertible and zero-based bonds, and more attractively priced negotiable certificates of deposit.

These will be aimed initially at institutional investors, such as pension funds and insurance companies, and later will be marketed among smaller individual investors.

Exempted

Later this autumn, the Government plans to issue a new regulation requiring 51 per cent of the equity of foreign banks in Jordan to be owned by Jordanian shareholders. This would bring banks in line with all other commercial establishments operating ir Jordan since 1967, though insurance companies will remain exempted from this provision.

Foreign banks in Jordan will be able to retain their present equity shares in absolute terms, by issuing new shares that would be sold only to Jordanians, thereby giving Jordanians a 51 per cent shareholding in the banks.

Dr Nabulsi stresses that this is not intended to be a move against foreign capital in Jordan, as the foreign shareholders will be able to maintain their holdings and also to repatriate their profits in full. He also notes that the foreign banks that become more Jordanian in character and ownership will be able to expand their capital and open new branches throughout the country. This is something they cannot do at present.

R. K.

ARAB BANKING AND FINANCE XIX

United Arab Emirates

Foreign banks think again

THE UAE banking scene has always been one of the more colourful in the Gulf. The young state's oil money and growing private wealth seems to generate an endless round of scandals and crises worthy of a Paul Erdman thriller.

A major reason for this phenomenon is that so many banks are competing for the available business. Although the number has been decreasing lately, the Emirates still has 51 banks with 323 branches in a nation of 1.3m people, most of whom are short-term residents.

Another factor is the overwhelming dominance of the National Bank of Abu Dhabi (NBAD). The National Bank notched up some $6.4bn-worth of assets in 1982, and absorbed 27 per cent of market. This results in 50 other banks having to scramble around for the rest of the business, in an economy marked by declining revenues and imports.

The number of banks was one of the first problems tackled by the Central Bank when it was established more than three years ago. One of its earliest decisions was to order the foreign banks to limit their number of branches in the country to eight. This is going to lead to considerable retrenchment in branch outlets for some of the older, foreign banks in the Emirates. Altogether 89 branches are expected to close.

Toehold

A number of the foreign banks are thought to be tempted by the prospect of "going local" through share issues in order to maintain their toehold in the economy, but others, particularly the later arrivals, are beginning to wonder whether it is worthwhile to stay on.

The directive on branches of foreign banks has been accompanied by a series of other measures, which many believe will prompt some departures. So far no foreign bank has decided to pack its bags, though Bank Urquijo has decided to downgrade its restricted licence operation to a representative office.

The thrust of these moves against the foreign banks has come largely from the emirate of Abu Dhabi, and its consultative council. Abu Dhabi's view of the foreign banks is not shared by Dubai or by the UAE Finance Minister, Sheikh Hamdan bin Rashid al Maktoum, who believes that competition can only be beneficial to local banks. Recently, Abu Dhabi decided to apply a *20 per cent tax on the* profits of the foreign banks in the emirate, though it softened the measure by not making it retroactive. In many ways, the decision only formalises agreements which were concluded with the Ruler over 20 years ago, and which are now expiring. The new taxation is identical to that in Dubai.

Abu Dhabi's rules on ownership of business also prompted the country's only money broker to suspend its operations in the capital. Tullet & Riley decided to conduct all future UAE operations from their regional head-office in Bahrain, and their move sent ripples of concern through the banking community. The Central Bank is now considering ways of encouraging the company to stay and become involved in a national money broking institution.

Government institutions, particularly in the capital, have long discriminated against foreign banks, directing most of the government business either through the National Bank of Abu Dhabi, or through three other local banks—the Federal Commercial Bak, Khalij Commercial Bank and the Emirates Commercial Bank. Of late, the latter three banks say that there has been a drift of government accounts back to NBAD.

Such measures against the foreign banks in the UAE have not necessarily meant a ticket to guaranteed prosperity for the local banks. Large numbers of merchants still prefer to bank with Grindleys or the British Bank of the Middle East, as they have been doing for years. Others naturally have channelled their business to long established local banks in which they hold shares, so when new local banks began to spring up in the late 1970s, they still found entry to the market was difficult, no matter what official nudges there were.

Now, many of the local banks have some first-class names on their books, but many are also over-burdened with loans to local merchants who have been hard hit by the slowdown in expenditures.

Bankers say they have suffered in particular from the downturn in the construction sector, and feel they have had to carry the brunt of the government deficits. The situation was not helped by the very late publication of the 1983 budget. This finally appeared in September, by which time a *number of local contractors* were perched on the edge of bankruptcy.

Hand to mouth

Many construction companies have not been paid for 12 months. Inevitably, in such situations, more credit is extended to these companies so that they may survive until the next time the government decides to make a payment. This hand-to-mouth existence of the construction industry has had an impact on bank balance sheets around the country, and the current budget hardly promises any perk in activity.

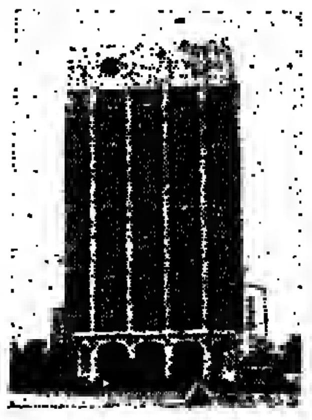
Local managers also say they have felt the impact of the Souk al Manakh disaster in Kuwait, for although the amount outstanding to UAE investors was minimal—officially only $38m—there is not the depth of wealth in the country to absorb losses easily.

Another problem for local merchants has stemmed from the activities of foreign commodity brokers operating in the country. Considerable funds, which might otherwise be being used to buy goods, are now being scooped uo by these brokers. Trading losses experienced by some speculators have been large.

At the same time, a number of local banks have been burdened by the loans extended to their directors, particularly in those cases where the banks are owned largely by one family or individual.

The Central Bank has now given such banks until the end of this year to get themselves in line. A directive published last summer ordered that loans and guarantees given to individual board members, or to companies in which they are shareholders, should not exceed 5 per cent of paid up capital. Loans to all members of the board put together should not be more than 25 per cent of capital. The directive was accompanied by tough language from the authorities, who threatened restrictions on lending, refusals of applications for new branches and even suspension of banks' licences.

The language has softened in recent months as *the difficulties* of such major readjustments have become apparent. One or two banks in Dubai were placed in a precarious position and have experienced major managerial changes as a result. Bank owners pointed out that in a time of recession such adjustments could not be made in a matter of months; some have had to contemplate mortgaging or selling some of their important assets.



The attractive headquarters of the Bank of Credit and Commerce International in Abu Dhabi. The building has brilliant blue reflective glass in its windows. Next door is the similar headquarters of the Arab Monetary Fund. Its windows, also of reflective glass, contain a significant amount of gold

The Central Bank's directive has undoubtedly caused upheavals, but in the long term it can only benefit the family banks by putting them on a sounder footing. Meantime, many of the foreign banks have been picking up the bank directors' business.

One of Abu Dhabi's leading banks, the Khalij Commercial Bank, is also presently renegotiating some of the loans promoted by its one-time chairman, Abdullah Darwiche. Last year the bank had to resort to asking its major shareholder, the UAE president, Sheikh Zayed, for a soft term deposit of $219m.

Its present managers, BCCI of Luxembourg, say they hope to salvage these "slow moving" loans within two or three years, and that half of the loan recipients have now agreed to a schedule of repayments. This year, they hope to pay the first dividends since 1979, and total assets are now up to $848m, with $13.6m put aside for bad debt provision.

The slowdown in government spending has made itself felt quite dramatically on deposits and credit in the system as a whole. Bank credit to the private sector grew by only 9 per cent in 1982 compared with 17 per cent the year before, and stood in June this year at just over $9bn. In fact, when interest is taken into account, there was an actual decrease in loans and advances last year. Conversely, credit to the government jumped by over 50 per cent in 1982, compared with a 5 per cent growth the year before.

Upheavals

Demand deposits stood at $1.8bn and time deposits were $7.7 billion in May this year. In 1982 call deposits grew by 8 per cent and time deposits by 18.8 per cent, just under half the growth rates of previous years.

Almost all bankers are complaining about the continued flat demand for credit in the first nine months of this year. The most pronounced decline has been seen in letters of credit business, which is showing a 30 to 40 per cent drop they say, after a 5 per cent drop in 1982. The Dubai banks say that business is improving slightly, since the relaxation of restrictions on imports into Iran. However, forthcoming legislation in India concerning imports of luxury goods will hit the re-export business once more. So will the continued exodus of expatriates which is currently under way in Dubai.

In general the UAE banks look as if they are going to face leaner times than in previous years, when growth rates were going up by leaps and bounds. Some banks say that they are hoping for the same kind of growth they saw in 1982, and in view of the recession - like conditions experienced in 1983, such results would represent a real achievement. The total assets of all the banks at the end of last year stood at just over $21bn, a 15 per cent increase over 1981.

The slower pace of growth was shown in the balance sheet of the National Bank of Abu Dhabi, whose total footings grew by $208m in 1982. The lower rate of growth was due to "e disinclination to expand risk assets at the present time," its annual report states. The growth in net profits by 131 per cent to $54m was largely due to the issue of new bonus shares. Actual deposits grew by only 9 per cent, and advances by only 13 per cent.

Another problem still plaguing the banking community in the Emirates is bank interest. There have been a number of legal judgements recently forbidding the charging of "unreasonable" rates of interest.

Kathy Evans

EUROPEAN NEWS

Diana Smith reports from Lisbon on the Prime Minister's businesslike first 100 days in office

Portugal grumbles but submits to the Soares axe

MOST OF the first 100 days of Sr Mario Soares' slowly-fashioned Socialist-Social Democrat coalition, which officially end today, passed while Portugal was on holiday, so few people saw the sick Portuguese economy being rushed to the operating theatre and submitted to radical surgery.

Some grumbled about rising prices triggered by removal of subsidies on staple goods, o quick, bravura gesture by the Finance Minister, Sr Ernani Lopes, to warn doubters that be meant business when be vowed that the drain on state finances would cease.

There were winces when Sr Lopes, backed by Sr Soares, froze public sector investment for two months so be could plan cuts. The pro-Moscow Communist Party warned of dire things to come if public concerns, where its supporters are concentrated, were tampered with.

But it saved its fiercest breath for the end of the holidays and a larger audience. The protests are now beginning in earnest.

No sooner bad traffic jams begun to plague the Lisbon streets again than Sr Ernani Lopes prescribed more bitter medicine: a tax package hitting conspicuous wealth, in some cases retroactively to 1982, and the working man's once-untaxed Christmas bonus. This gesture brought cries of rage from industrialists and trade unionists alike — albeit over different aspects of the package.

Unmollified by plans to increase old age and other pensions, the Communists have called a day of demonstrations against the Government's policies on Saturday, October 15th, the first sortie io a planned anti-coalition campaign.

Communist marches are big—the Party can usually find over 100,000 marchers from around Lisbon or beyond, bringing a carnival of scarlet banners, linked arms and upraised fists.

But such shows of displeasure—part of the scenery since 1974—distract from stumbling efforts by the Government and union leaders, both Communist and otherwise, to find a *modus vivendi* less tinged by rhetoric. The bleakness of Portugal's finances call for pragmatism behind the banners.

Sr Soares came to office with a promise of 100 measures in 100 days. These have patently not materialised, but there is o widespread feeling that the Government is deeply serious about the task it has set itself—to tackle Portugal's bloated deficits, sickly public companies and spreading black economy.

The international banking community has been watching anxiously, mindful of Portugal's $14.2bn foreign debt—more than 58 per cent of gross domestic product, a ratio far worse than that of Brazil, for example. It is waiting for a sign of o turnaround in the recent history of escalating current account deficits.

The International Monetary Fund (IMF), which is exacting stern conditions on Portugal's public sector white elephant in return for a $480m standby credit, has become a useful scapegoat for the Government now that the population has awoken from its summer torpor and realised that incomes have shrunk and outlays grown.

At home, the Left is hotly defending a public sector whose debt to the domestic and international banking system hovers around Esc 1,000bn ($8.3bn). This has accrued through prolonged artificial maintenance of jobs, floods of subsidies to keep companies afloat however slim their order books or uncompetitive their prices, waste of funds on mega-projects that lost their rationale after the oil shocks, and omnipresent bureaucratic obstruction.

Furthermore, the moonlighting by civil servants and public sector workers has grown to spectacular proportions in recent years. In the most extreme cases, some upper-echelon public employees have four or more paid jobs in the public and private sectors.

Past Governments since 1979 have pruned o little here and there, but not bravely enough to prevent the weight of the public sector dragging Portugal close to bankruptcy. If untouched a little longer, the mess would, in the words of Sr Carlo Mota Pinto, the Deputy Premier, have left Portugal with 'no more gold to sell, no more oil and no more grain."

To its dismay the new Government found figures even worse than anticipated when it went through the nation's books. It bopes this home truth will rally politicians round the cause of keeping Portugal solvent.

Sr Soares and his ministers are seeking genuine common ground with their opponents—a particularly bard task in a country where monologues interrupted by other monologues have often passed for dialogue, and where consensus often seems less a negotiated platform than a pause between squabbles.

So far the coalition has been surprisingly harmonious. Sr Soares' calm leadership in his second stab at government in five years has helped.

But Sr Mota Pinto, the strong-willed Social Democrat Party Secretary, Sr Antonio Capucho and other senior members of their party can share the credit. They bave blocked party troublemakers keen to disrupt the last feasible democratic permutation available after 14 other failures.

The sense that if this coalition cracks, moderate options run out, combined with the nnderstanding by most adult Portuguese that their country cannot afford more political games is gradually bringing an element of realism to a land that is still unsure of its economic and political purpose.

Sr Mario Soares, co-founder of the Portuguese Socialist Party, has been re-elected secretary-general for the fifth time in a row, writes Diana Smith. A thousand delegates to the party's fifth congress since its foundation in exile in Bonn in 1973 gave Sr Soares and his fellow candidates for the national executive just over 63 per cent of their votes.

Opposition to Sr Soares's list was rather larger than a gathering billed as the "Congress of Consensus" might be expected to produce. This has been interpreted, however, as the delegates' wish to put some tactical distance between themselves and the government austerity programme which Sr Soares must sponsor without seriously threatening the leadership of the party's and arguably, Portugal's most charismatic figure.

All but 2 per cent of the delegates approved a motion that basically ratifies the steady shift from the revolutionary socialism of the party's first manifesto in exile to a centre-left stance, where the quest for more social justice is still vital but socialisation of the economy has fallen from grace.

The peaceful mood of last weekend's congress contrasted vividly with the bitterness of the 1981 congress when Sr Soares's leadership was challenged so outspokenly that he exiled himself temporarily from leadership.

Sr Mario Soares

SETBACK FOR MITTERRAND

French Right makes gains in local poll

BY DAVID HOUSEGO IN PARIS

FRANCE'S Socialist-led administration appears to have hit a new low in popularity.

It suffered a substantial political reverse et the weekend when the left-wing coalition lost control of the town council of e dormitory suburb outside Paris which it has held without interruption since 1985.

The election at Sarcelles resulted in the opposition right-wing and centrist parties polling a combined 54 per cent of the vote, compared with 46 per cent won by the Left. In the municipal elections in March, the Left gained 50 per cent of the vote at Sarcelles, and President François Mitterrand scored a record 64 per cent during the second round of the presidential elections in May 1981.

The sharp swing to the Right was also confirmed on Sunday in two other cantonal elections at Beziers in the Midi and in the Haute-Vienne. These setbacks come at a time when President Mitterrand's personal popularity in the opinion polls has again dipped to a record low.

According to e new Sofres poll, only 38 per cent of those canvassed expressed confidence in him, while for the first time more people have an adverse opinion of the Socialist Party than e positive one.

The election at Sarcelles was caused by the Conseil d'Etat, the state judicial authority, annulling the results of the March municipal election in which M Henry Canacos, Communist mayor for 18 years, was again returned. The election was annulled because of electoral "fraud."

When the results of the re-run were declared on Sunday night, Communists and right-wing supporters were involved in fighting and some teargas was used. Among those injured was the new Mayor M Raymond Lamootagne.

The Socialist Party spokesman yesterday conceded that the Sarcelles result had been a "defeat for the Left" and said that it was linked to the "general political situation."

Undoubtedly further electoral reverses would put pressure on the Government to ease up on its austerity policy at least in good time for the legislative elections of 1986. Seemingly sensing the risk of this, M Jacques Delors, the Finance Minister, declared in e radio broadcast oo Sunday night that "rigour" was not e transitional policy but had to be maintained over e long period.

He indicated that the sound management of the economy was more important to him than electoral success – views that risk making him more unpopular within the Socialist and Communist parties.

The continuing swing to the Right is seen as reflecting more the unpopularity of the Government than any advance by the opposition whose leadership remains divided. None the less, it leaves M Jacques Chirac, the new Gaullist leader and head of the largest opposition party, in the uncomfortable position of having to cool the impatience of his rank and file.

Aware of the risks of being seen himself to encourage fresh street demonstrations, he warned his followers again at the weekend against "burning up the distance" and advised them to wait instead for the legislative elections of 1986.

EXECUTIVE managers and foremen took to the streets of Paris yesterday to protest against rising taxes and falling living standards. Over 100,000 people attended the mass rally which was organised by the largely middle-class CGC, the most militant of the French trade unions.

Soviet Union hints at merging arms talks

MOSCOW – The Soviet Union, in what could be taken as a significant softening of its negotiating stance on arms reductions, indicated publicly for the first time yesterday that it might be ready to merge parallel missile reduction talks after Nato deploys new missiles in Europe.

In a commentary issue by the Novosti news agency, the Kremlin also appeared to soften its threat to take countermeasures should the Nato deployment go forward.

"The deployment of American 'Euromissiles,' which constitute a strategic weapon for the U.S.S.R. since they can hit targets oo Soviet territory, may also force the Soviet Union into taking effective measures with regard to U.S. territory.

"This may also force Moscow to review its negotiating position at the strategic arms talks, since Pershing II and Tomahawk missiles would not only upset the regional and global balance but also open a channel for the U.S. to bypass a future strategic arms agreement," the commeotary said.

"That language is certainly a significant softening from what they have been saying," one Western diplomat, an expert said.

Another Nato diplomatic arms expert said it marked the first time the Soviets had publicly acknowledged their poteotial readiness to merge the Geneva talks. The two men would not allow the use of their names or nationalities.

Nato plans to begin deploying 572 oew American Pershing II and cruise missiles in December if the U.S. and the Soviet Union fail to reach an agreement by then on limiting medium-range nuclear weapons. Talks in Geneva on reaching an agreement appear deadlocked as do parallel discussions between the superpowers on reducing strategic weapons.

AP

Irish budget deficit comes under control

BY BRENDAN KEENAN IN DUBLIN

GOVERNMENT FINANCES in the Irish Republic appear to be under control for the first time in five years. Exchequer returns, published yesterday, show the Government broadly on target for e borrowing requirement for the full year of I£1.75bn ($2.07bn), or 14 per cent of GNP.

It is the first time since 1978 that the current budget deficit at the end of September has not exceeded the budget target for the full year. But the encouraging figures come as the parties in the ruling coalition have disagreed over budget strategy next year.

The row began when Dr Garret FitzGerald, Prime Minister, suggested that spending cuts of I£500m would be needed next year, if the Government was to stick to its target of eliminating the current budget deficit by 1985.

Members of the junior Labour partner in the coalitions became alarmed at the implications of such a strategy. After a meeting between Dr FitzGerald and Mr Dick Spring, Labour leader and deputy premier, is was agreed that no public statements would be made until the Cabinet had considered the options in detail.

Lawyers urge Polish amnesty

By Christopher Bobinski in Warsaw

A CONGRESS representing Poland's 3,500 barristers has called for the freeing of political prisoners as the authorities prepare to go ahead with the trial of four members of the KOR dissident group and seven leaders of the banned Solidarity group.

This means that defence lawyers at the trials, which will be held before military courts, appear to have the backing of a majority of the country's barristers.

The congress, the first since the martial law crackdown in December 1981, Io a display of independent thinking has also called for the introduction of special status for political prisoners, the reinstatement of those sacked for political reasons and the abolition of the death penalty for all crimes.

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